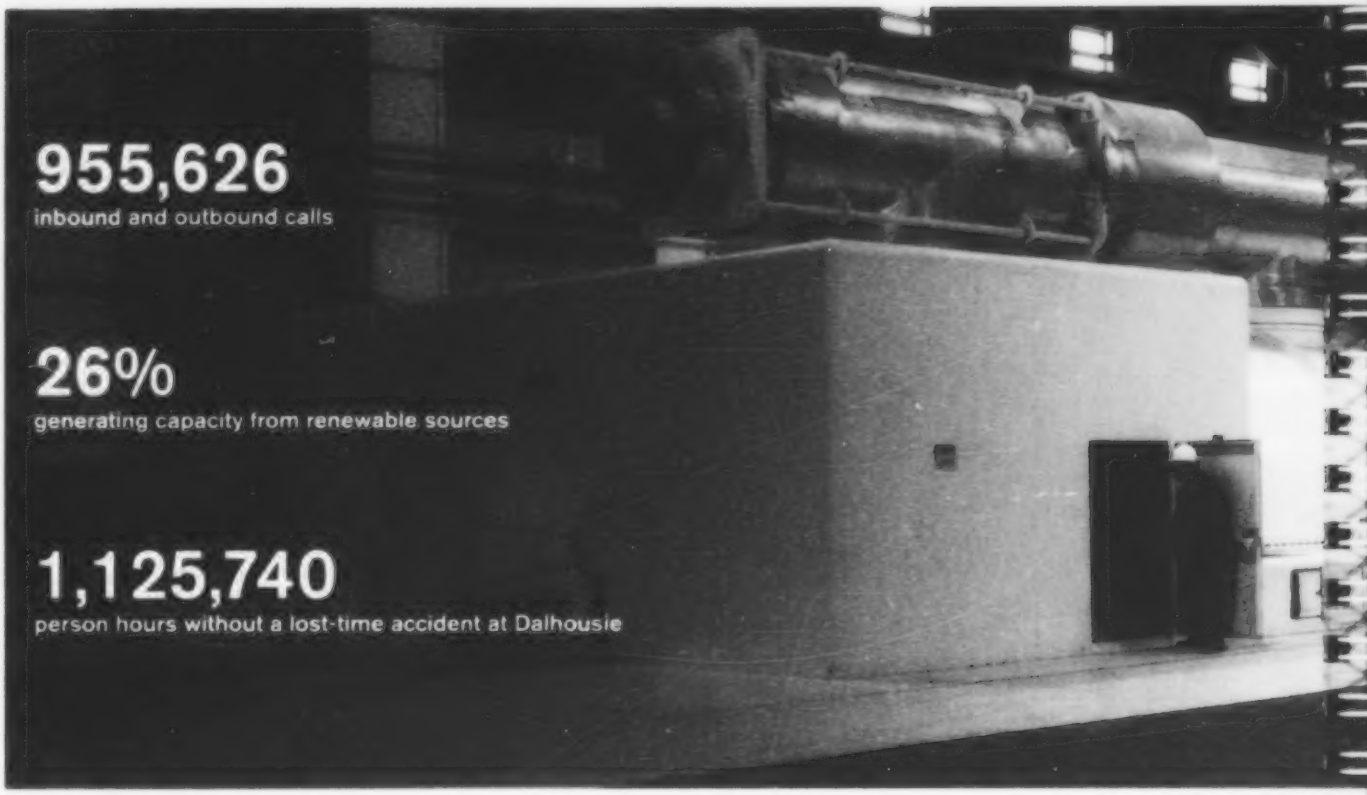
# Focusing on Performance

***NB Power is focused on achieving a level of performance that provides New Brunswickers with electricity generated efficiently and responsibly***

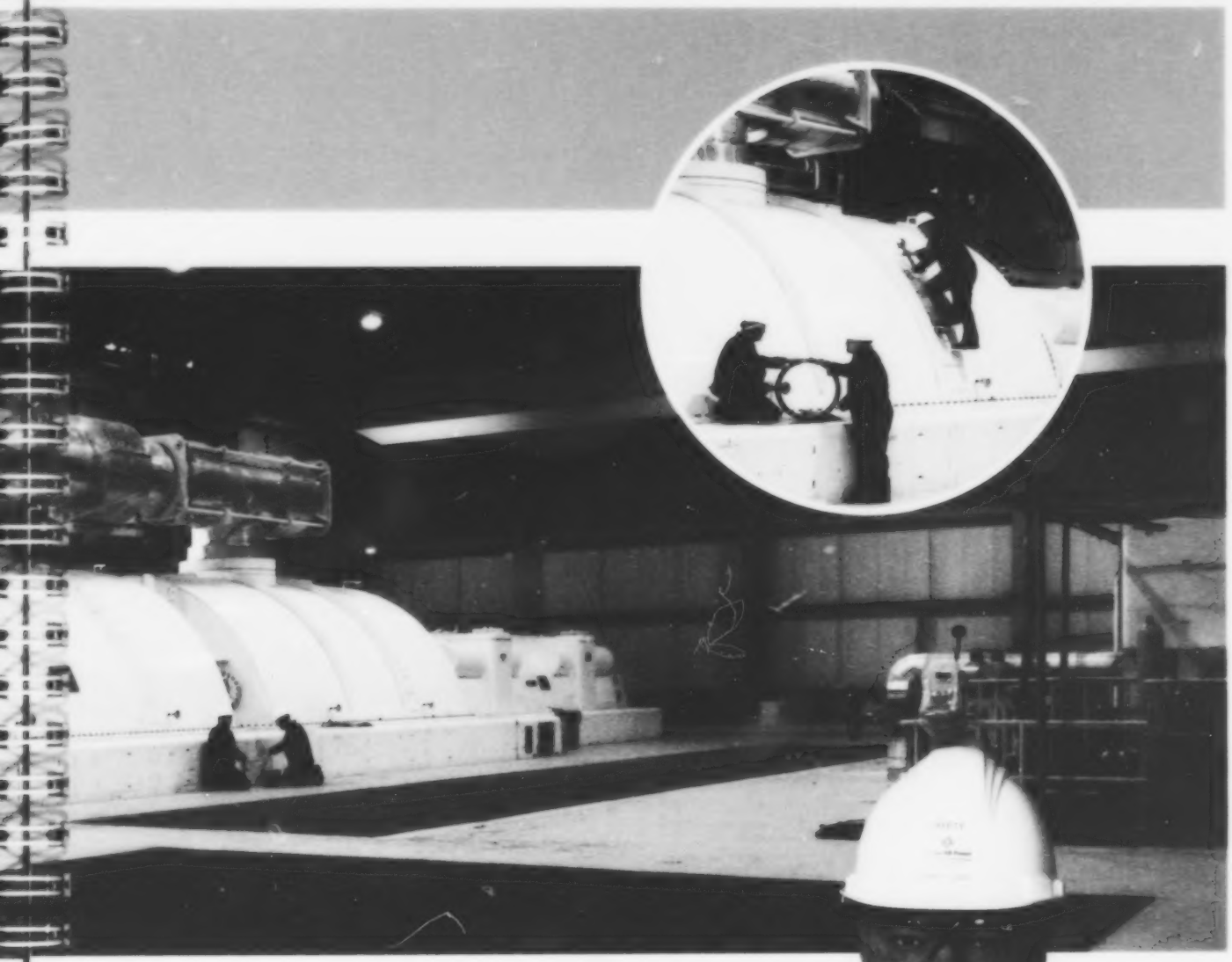



At NB Power, we know customers expect us to manage our costs so we focus on operating efficiently. In 2006/07, our Belledune Generating Station received the Electric Utility Cost Group's Best Performer Award for its exemplary operations and maintenance performance.

Performing efficiently means that employees must also focus on working safely. NB Power's goal is to rank as a top safety performer amongst Canadian electrical utilities. In fact, last year we experienced the fewest number of lost-time accidents in our history – including seven months with zero lost-time accidents.

And performance for all New Brunswickers means NB Power provides electricity with a focus on the environment. NB Power has led the way in environmental controls by installing the first, third and sixth scrubbers in Canada that reduce sulphur dioxide emissions. In order to further minimize our environmental footprint, we recently used helicopter construction on the International Power Line.

Looking forward, NB Power will continue to seek operational efficiencies so that we can provide electricity at the lowest possible cost, consistent with safety, reliability and the environment.



*"We best serve our customers by maintaining the plant at optimum performance with minimum cost, while maintaining safety. We are always revisiting what we have done well and looking for ways we can improve. The result is safe, reliable and efficient operations."*

Don Gallen, Work Methods, Safety and Training Coordinator

# Focusing on Excellence

***NB Power is focused on excellence and continually seeks new ways to surpass previous performance to contribute to a more vibrant New Brunswick***

Reliable service is important to our customers and at NB Power we're focused on continuously improving it. New technology in NB Power's generating stations is improving the way we plan work so that we can identify and address equipment issues before they fail. Other technology enhancements, including the installation of 91 mobile units in vehicles, are providing remote access to operational information so that our customers receive better service than ever before.

Our customers expect us to continuously improve our services while focusing on providing electricity at the lowest possible cost. That's why in 2006/07, NB Power established a 24-hour energy marketing desk. Its first year of operations meant our customers were using energy from other markets when the cost was lower than in-province generation options.

Excellence in service and reliability happens when people are at their best. Employees in the right job at the right time and in the right frame of mind will continue to achieve a level of excellence that ranks the NB Power Group among the best-run utilities and that will contribute to a more vibrant New Brunswick.

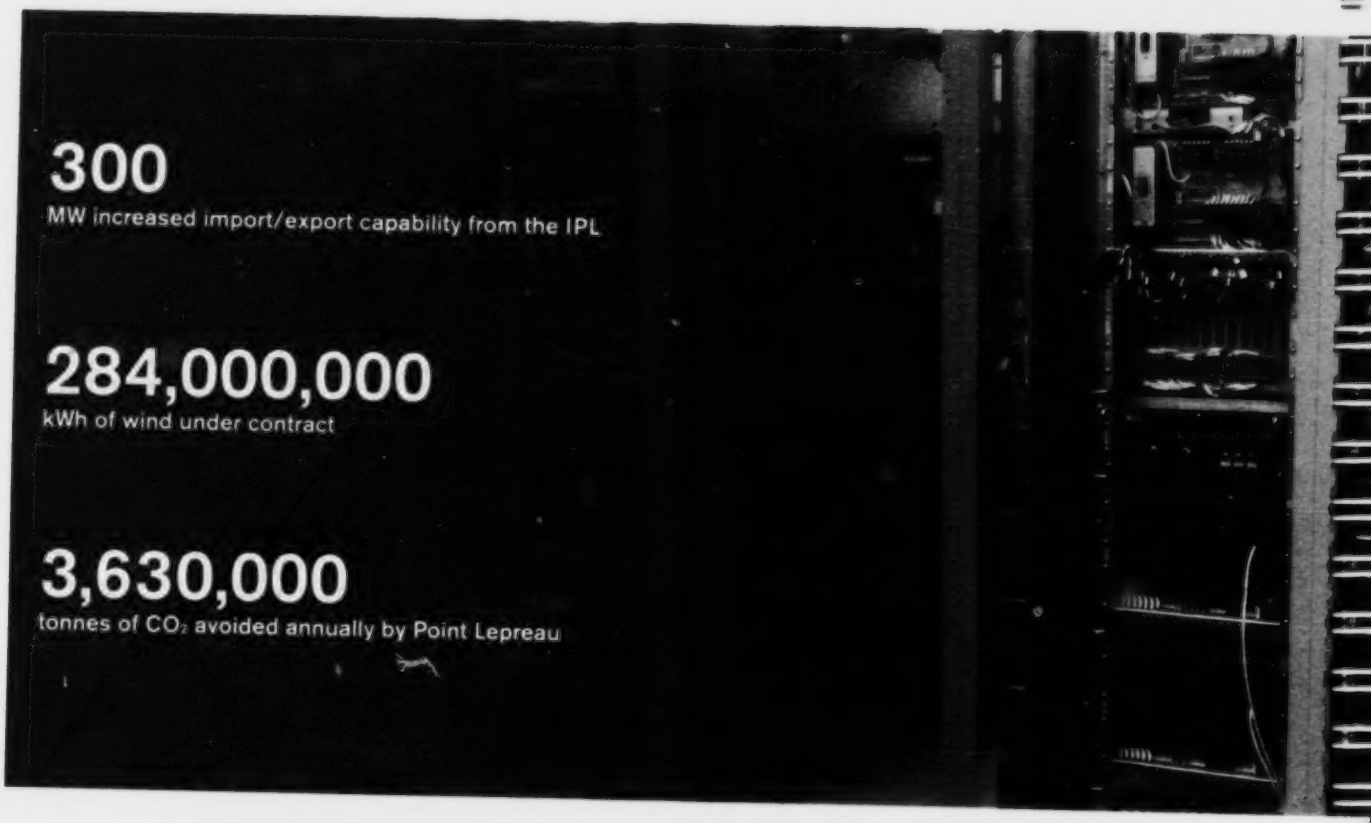
Looking forward, NB Power will pursue excellence to ensure safe and reliable electricity and services to standards that meet customers' expectations while keeping electricity rates as low as possible.

*"We are always looking for ways to improve our service to customers. Using the mobile computers, we can detail the work right on the job site so the customers' requests get scheduled more quickly. I enjoy being able to provide customers the best service I can, responding to their questions and requests quickly."*

Lynne LeBlanc, Power Line Designer

# Focusing on Tomorrow

***NB Power is focused on tomorrow, undertaking projects that ensure we meet the needs of future generations***




A refurbished Point Lepreau Generating Station will provide New Brunswick a reliable supply of nuclear generation until 2034. At NB Power, we are focused on delivering a successful refurbishment today for reliable generation in the future. We are on-track with our refurbishment preparations and outage plans and have secured the energy needed from external sources while the Station is out of service. In 2006/07, we continued to ready the generating and transmission systems so that during the outage our customers will have access to the electricity they need.

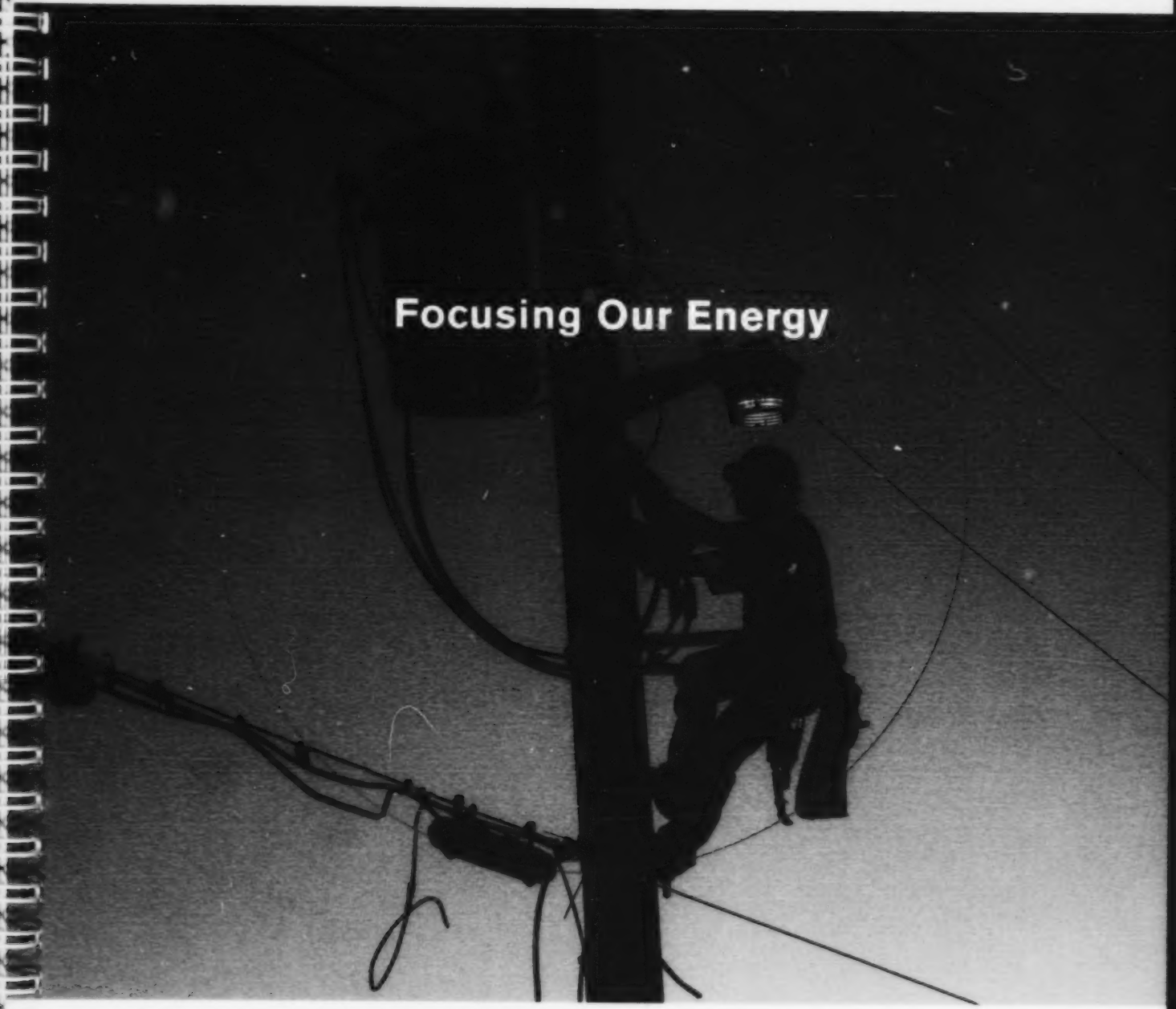
Building the International Power Line is about our focus on building more opportunities. When the line is completed at the end of 2007, it will increase our ability to export energy to other markets and import energy from neighbouring utilities. The line also improves reliability to the Maritimes by strengthening our interconnection with New England, which reduces our risk of black-outs.

We are also looking to renewable energy as part of our focused commitment to the environment and the future of power generation. In 2006/07, NB Power signed contracts for 96 MW of wind energy to be available in 2008 and announced plans to explore new opportunities for further wind development by November 2010.

Looking forward, NB Power will continue to seek ways to reduce customers' costs for today and into the future.

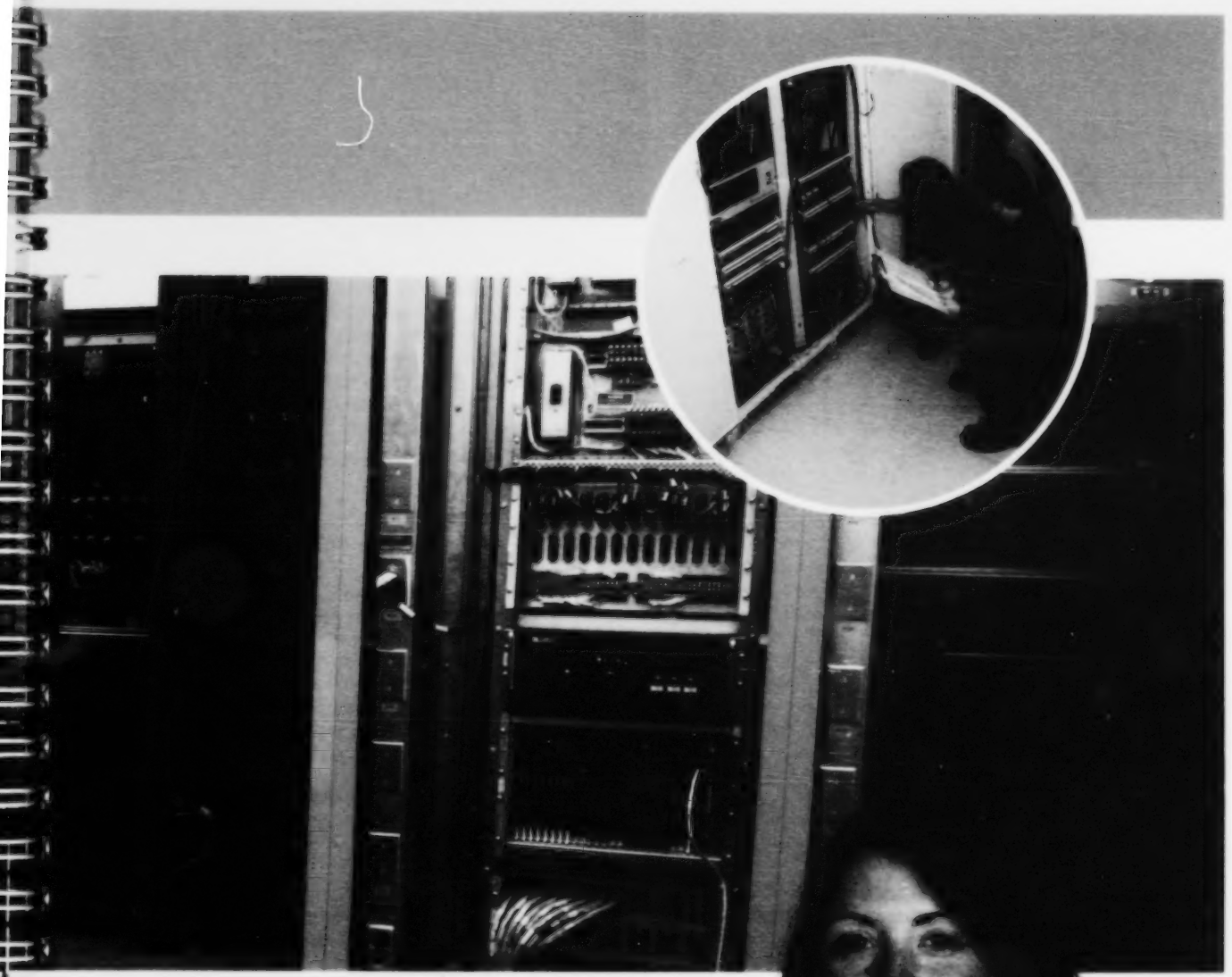
Énergie NB Power

Groupe Group



# Focusing Our Energy

2006/07 Annual Report



*"A refurbished Point Lepreau Generating Station will continue to provide our customers safe, clean, reliable energy. We are planning well for the refurbishment so that we deliver the project successfully. Our job will be to do what we say we're going to do, and do it well, for New Brunswickers."*

Rose Robinson, Electrical Instrumentation and Controls

Énergie NB Power

Production Generation

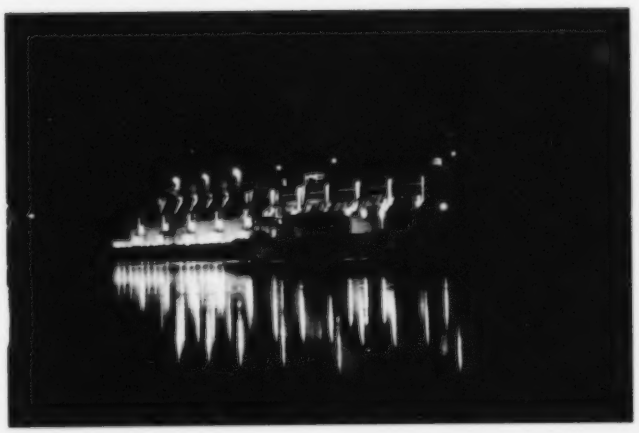
Genco operates and maintains one of North America's most diverse generating systems, consisting of 14 hydro, coal, oil and diesel-powered stations with an installed net capacity of 3,313 MW. Genco supplies approximately 75 per cent of in-province load through sales to Disco. It also exports energy to neighbouring New England, Quebec, Prince Edward Island and Nova Scotia markets. Genco has fixed assets with a net book value of $1,885 million.

### 2006/07 Key Accomplishments

- Achieved 88.3 per cent station availability
- Reported 52 days of lost time due to accidents
- Experienced hydro flows at 17 per cent above the long-term average, the fifth highest year on record
- Began project to determine the feasibility of burning petroleum coke and heavy fuel oil at Coleson Cove Generating Station
- Conducted reviews and operational risk assessments at all major stations in preparation for the refurbishment outage

### 2007/08 Plans

- Ready generating system for the Point Lepreau Generating Station refurbishment outage
- Monitor and adapt to evolving environmental regulations for carbon dioxide emissions
- Test alternative fuel for Coleson Cove Generating Station



Énergie NB Power

Nucléaire Nuclear

Nuclearco operates and maintains a CANDU 6 – 635 MW reactor at the Point Lepreau Generating Station. The Station provides approximately 25 per cent of New Brunswick's electrical energy requirements. It also sells five per cent of its energy production to Maritime Electric Company, Limited. Nuclearco has fixed assets with a net book value of $615 million.

### 2006/07 Key Accomplishments

- Achieved a net capacity factor of 78.2 per cent
- Reported one lost-time accident, resulting in 12 hours of lost time
- Maintained refurbishment activities on time and on budget
- Completed the 2006 outage in three days less than expected
- Operated Point Lepreau Generating Station without interruption for 289 continuous days between planned outages
- Achieved a record 1.7 million person hours without a lost-time accident from October 2005 to January 2007

### 2007/08 Plans

- Maintain safe and reliable operations
- Execute refurbishment project on time and on budget
- Achieve world-class performance by adopting standards of excellence in all areas and establishing a culture of continuous learning and growth

September 30, 2007

To His Honour
The Honourable Herménégilde Chiasson
Lieutenant-Governor of New Brunswick

Sir:

New Brunswick Power Holding Corporation begs leave to submit, in accordance with the *Electricity Act*, Part II, Division A, 10(1), the report for the fiscal year ended March 31, 2007.

I am, Your Honour,

Yours very truly,

Norman M. Betts
Chairman (Interim)

## Company Profile

The NB Power Group provides New Brunswickers electricity at the lowest possible cost, consistent with safety, reliability and the environment. The electricity is generated at 15 facilities and delivered via power lines, substations and terminals to more than 370,000 direct and indirect customers within New Brunswick. In addition, the Group exports electricity to New England, Quebec, Nova Scotia and Prince Edward Island.

The NB Power Group consists of a holding company and four operating companies

- New Brunswick Power Holding Corporation (Holdco), which provides strategic direction, governance and support to the subsidiaries for communications, finance, human resources, legal and governance. It also provides shared services on a cost-recovery basis
- New Brunswick Power Generation Corporation (Genco), which is responsible for the operation and maintenance of the oil, hydro, coal and diesel-powered generating stations
- New Brunswick Power Nuclear Corporation (Nuclearco), which is responsible for the operation of Point Lepreau Generating Station
- New Brunswick Power Transmission Corporation (Transco), which is responsible for operating and maintaining the transmission system
- New Brunswick Power Distribution and Customer Service Corporation (Disco), which is responsible for operating and maintaining the distribution system. Disco is designated as the standard service supplier for the Province of New Brunswick and is obligated to provide standard services to residential, commercial, wholesale and industrial customers located throughout the province.

Genco wholly owns two subsidiaries

- New Brunswick Power Coleson Cove Corporation (Colesonco), which owns and operates Coleson Cove Generating Station, with a generating capacity of 978 MW included in Genco's total capacity
- NB Coal Limited (NB Coal), which mines local coal to supply Grand Lake Generating Station

Énergie NB Power

Transport Transmission

Transco operates and maintains 46 terminals and switchyards that are interconnected by over 6,703 km of transmission lines ranging in voltage from 69 kV to 345 kV. The system is interconnected with electrical systems in North America, including Quebec, Maine, Nova Scotia and Prince Edward Island. It has an export capacity of 2,377 MW and an import capacity of 1,680 MW. Transco has fixed assets with a net book value of $368 million.

### 2006/07 Key Accomplishments

- Achieved a System Average Interruption Duration Index (SAIDI) of 0.68 hours
- Experienced 3.48 faults per 100 km of transmission line
- Reported an incident severity rate of 69.77
- Completed construction of International Power Line foundations and assembly of the structures necessary to begin helicopter construction
- Completed International Power Line stringing activities in sensitive environmental areas
- Conducted system risk assessment in preparation for the Point Lepreau Generating Station refurbishment outage, including refurbishing at interconnections

### 2007/08 Plans

- Complete the second International Power Line
- Optimize delivery reliability by readying the transmission system for the refurbishment outage and executing regular maintenance of the system
- Focus on continuous process improvement

Énergie NB Power

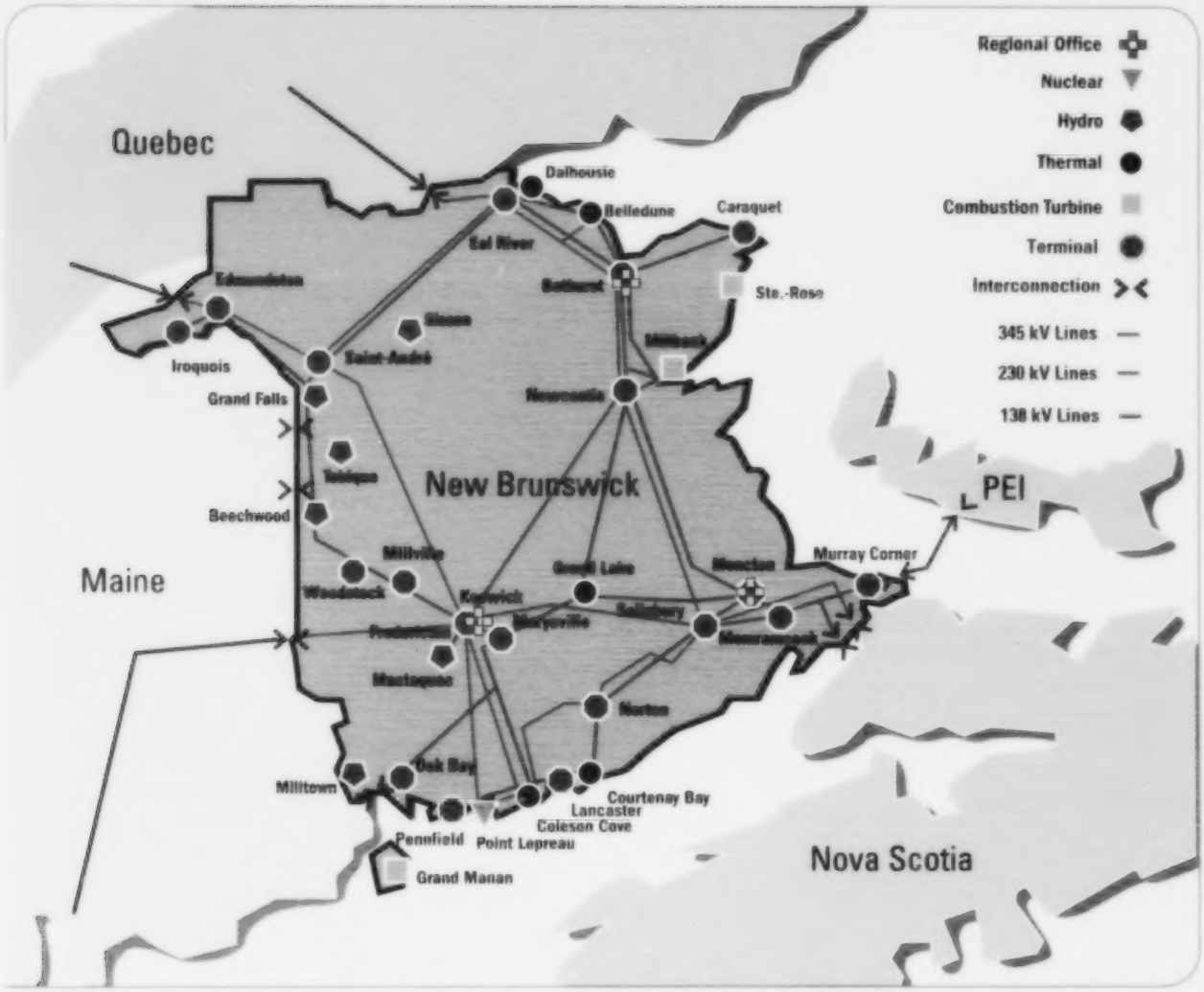
Disco is the standard service supplier, responsible for securing adequate capacity and energy to meet customer demand in New Brunswick. Disco delivers safe, reliable and reasonably-priced energy to 332,107 direct customers and 41,100 indirect customers by way of its 20,030 km of distribution lines and substations. It also provides valuable customer services through its regional offices, customer interaction centres, account managers and energy advisors. Disco has fixed assets with a net book value of $531 million.

### 2006/07 Key Accomplishments

- Achieved a System Average Interruption Frequency Index (SAIFI) of 1.7
- Answered calls within 40 seconds on average
- Reported three lost-time accidents
- Achieved best system reliability in 14 years
- Signed two agreements for 96 MW of wind energy in southeastern New Brunswick
- Received positive rates decision from the New Brunswick Board of Commissioners of Public Utilities in July 2006
- Participated in Customer Service Policy & Load Forecast Methodology hearings before the New Brunswick Board of Commissioners of Public Utilities

### 2007/08 Plans

- Develop and implement a rate strategy that meets the Government's direction to operate on a break-even basis
- Acquire an additional 10 per cent of New Brunswick's generating capacity from renewable sources by 2010
- Focus on continuous process improvement




Gentco

| Generating Capacity | |
|---|---|
| **Thermal** | |
| Belledune | 458 MW |
| Coleson Cove | 978 MW |
| Courtenay Bay | 110 MW |
| Dalhousie | 300 MW |
| Grand Lake | 57 MW |
| **Total Thermal** | **1,903 MW** |
| **Combustion Turbine** | |
| Grand Manan | 27 MW |
| Millbank | 399 MW |
| Ste.-Rose | 100 MW |
| **Total Combustion Turbine** | **526 MW** |
| **Hydro** | |
| Beechwood | 113 MW |
| Grand Falls | 66 MW |
| Mactaquac | 672 MW |
| Milltown | 4 MW |
| Sisson | 9 MW |
| Tobique | 20 MW |
| **Total Hydro** | **884 MW** |

Nuclearco

| Generating Capacity | |
|---|---|
| **Nuclear** | |
| Point Lepreau | 635 MW |
| **Total Generating Capacity** | |
| Conventional | 3,313 MW |
| Nuclear | 635 MW |
| **Total** | **3,948 MW** |

Transco

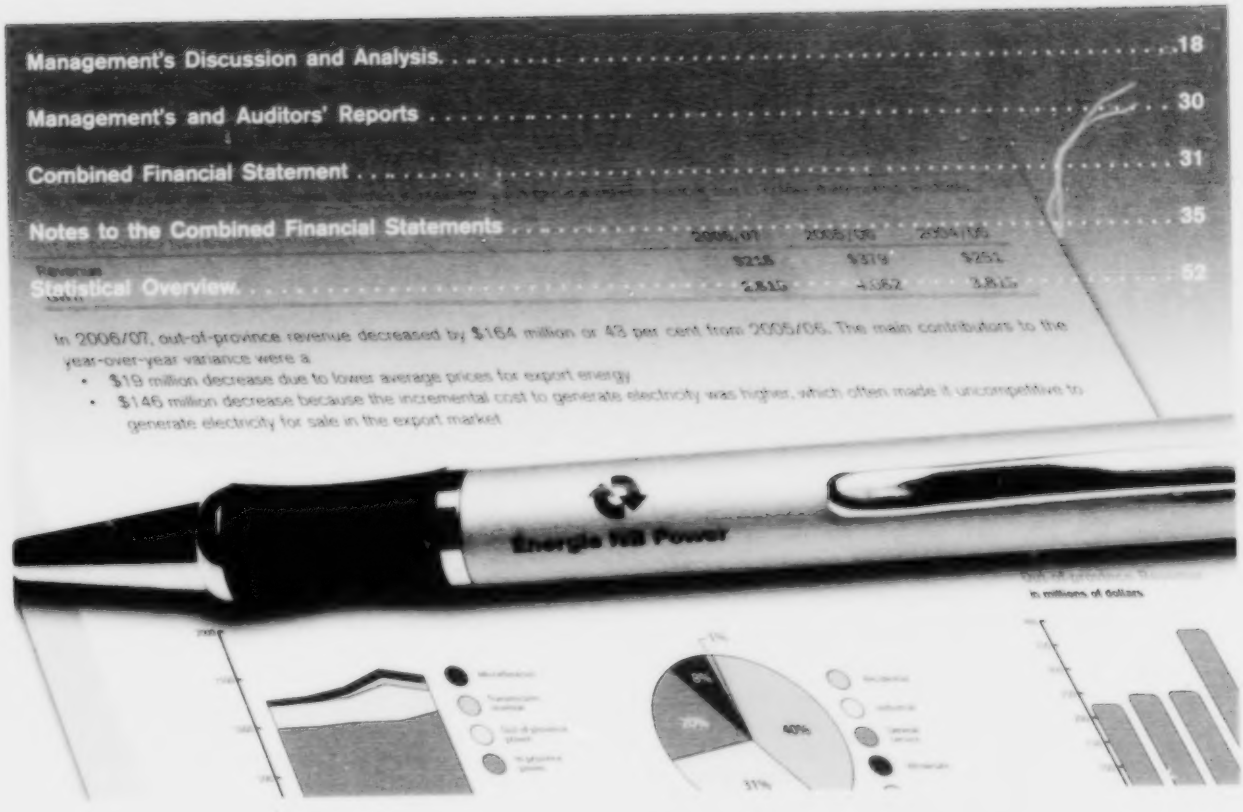
| | |
|---|---|
| # of km of transmission lines | 6,703 |
| Export capacity | 2,377 MW |
| Import capacity | 1,680 MW |

Disco

| | |
|---|---|
| # of direct customers | 332,107 |
| # of indirect customers | 41,100 |

# Financial Review

## 2006/07


Management's Discussion and Analysis . . . 18
Management's and Auditors' Reports . . . 30
Combined Financial Statement . . . 31
Notes to the Combined Financial Statements . . . 35
Statistical Overview . . . 52
In 2006/07, out-of-province revenue decreased by $164 million or 43 per cent from 2005/06. The main contributors to the year-over-year variance were a
$19 million decrease due to lower average prices for export energy
$146 million decrease because the incremental cost to generate electricity was higher, which often made it uncompetitive to generate electricity for sale in the export market
Energie NB Power
in millions of dollars



Management's Discussion and Analysis reviews financial results from operations for the fiscal year ended March 31, 2007 relative to the previous year. This section should be read in conjunction with the Combined Financial Statements and accompanying notes.

The Combined Financial Statements include the accounts of New Brunswick Power Holding Corporation (Holdco) and those of its subsidiaries

- New Brunswick Power Generation Corporation (Genco)*
- New Brunswick Power Nuclear Corporation (Nuclearco)
- New Brunswick Power Transmission Corporation (Transco)
- New Brunswick Power Distribution and Customer Service Corporation (Disco)

*Including the New Brunswick Power Coleson Cove Corporation (Colesonco) and NB Coal Limited (NB Coal), both subsidiaries of Genco

This is collectively referred to as either the NB Power Group, the Group or the Corporation.

# Annual Report

## 2006/07


Message from the Chair ..... 5

Message from the President and Chief Executive Officer ..... 6

Focusing our Energy ..... 8

Operating Company Highlights ..... 16

Financial Review ..... 18
- Management's Discussion and Analysis ..... 18
- Management's and Auditors' Reports ..... 30
- Combined Financial Statements ..... 31
- Notes to the Combined Financial Statements ..... 35

Statistical Overview ..... 52

Boards of Directors ..... 56

Senior Management ..... 57

Governance ..... 57

Glossary ..... 58


### Electricity Terms

**Energy**
the quantity of power produced by a generating station over a period of time, usually measured in megawatt-hours (MWh)

**Kilowatt-hour (kWh)**
the basic unit of electric energy equal to one kilowatt of power supplied to or taken from an electric circuit steadily for one hour; one megawatt-hour is equal to one thousand kilowatt-hours

**Capacity**
the maximum power a generating unit, generating station or other electrical apparatus can supply, usually measured in megawatts (MW)

**Megawatt (MW)**
the unit of electrical power used to measure the generating capability of a generating station or the maximum demand of an electricity consumer

## The Company

The NB Power Group provides New Brunswickers electricity at the lowest possible cost, consistent with safety, reliability and the environment. The electricity is generated at 15 facilities and delivered via power lines, substations and terminals to more than 370,000 direct and indirect customers within New Brunswick. In addition, the Group exports electricity to New England, Quebec, Nova Scotia and Prince Edward Island.

### Safety

The NB Power Group maintains a strong safety record and continues to strive to rank as a top performer for safety among comparable electric utilities in Canada. The Group also promotes customer and contractor safety through a public awareness campaign.

### Reliability

Through preventive maintenance and capital investments, the NB Power Group maintains a reliable transmission and distribution system to provide electricity safely and reliably to New Brunswickers. It also maintains a reliable generating system with maintenance investments in its stations and refurbishment investments in Coleson Cove and Point Lepreau generating stations. The NB Power Group monitors and addresses emerging generating, transmission and distribution system maintenance issues.

### Environment

The NB Power Group operates with respect for the environment. It operates pollution control equipment, diverts generation by-products from landfills and manages environmental management systems. It takes advantage of renewable energy resources and explores opportunities for energy efficiency.

The Group is a member of the Canadian Electricity Association and as such, a participant in the Environmental Commitment and Responsibility program. Through this industry-wide initiative, the Group reports on specific measures and indicators to benchmark its environmental performance. In following the program, it strives to be more efficient in its use of resources, reduce the adverse environmental impact of its business, be accountable to its constituents and ensure that its employees understand the environmental implications of their actions and have the knowledge and skills to make the right decisions.

### Vision

The NB Power Group strives to achieve a level of excellence that will rank it among the best-run utilities and that will contribute to a more vibrant New Brunswick.

## Financial Viability

Government has asked the NB Power Group to operate on a break-even basis. The Corporation continues to pursue two key initiatives to focus its efforts to achieve financial viability.

### Business Excellence

The NB Power Group continues its focus on controlling operating costs and transforming the organization through an improved business planning and budgeting process and the use of a balanced scorecard methodology to increase efficiency and improve management practices.

In 2006/07, the NB Power Group pursued improvements to the risk management process to address Board reporting requirements and continue evolving executive risk oversight and follow-up activities.

The Group also continued to enhance and cascade its balanced scorecard program. It focused on management processes to support more effective use of the balanced scorecard in planning, reporting and performance management.

It further developed its management practices by integrating the risk management, balanced scorecard and business planning and budgeting processes. The NB Power Group will continue to evolve and integrate these processes for more effective and efficient business planning and operations.

### Rate Strategy

A significant portion of the Group's generating capacity is fuelled by oil, coal and natural gas. Due to the relentless rise in fossil fuel prices over the last few years, the NB Power Group submitted a rate application to the New Brunswick Board of Commissioners of Public Utilities (PUB) for the 2006/07 fiscal year.

Disco had requested an overall increase in firm rates of 11.4 per cent, effective April 1, 2006. Disco requested the increase to recover the budgeted 2006/07 revenue shortfall of $123 million driven mainly by rising fuel costs.

On June 19, 2006, the PUB approved an overall rate increase of 9.6 per cent, effective August 1, 2006. On June 30, 2006, the Province of New Brunswick modified the PUB decision pursuant to section 105(1) of the *Electricity Act*. The overall increase in firm rates approved by the Lieutenant-Governor in Council was 6.9 per cent effective July 1, 2006. This resulted in a $67 million revenue shortfall for 2006/07, the impact of which was minimized by the year's operating conditions.

## Financial Results

The NB Power Group recorded net earnings of $21 million in 2006/07. The positive financial results in 2006/07 were partly due to strong nuclear and thermal generating station performance and better-than-average hydro flows. The Group continued to take advantage of its diverse generating system and diverse fuel supply to dispatch generation in order from the lowest to the highest incremental cost, subject to all system and contractual constraints. The above-average hydro levels allowed the Group to operate its hydro generating stations above planned levels to replace the energy of its more expensive units, resulting in decreased energy costs. The Group also seized opportunities to purchase energy at favourable prices to offset higher generation costs.

The Group's $21 million net earnings in 2006/07 was less than its 2005/06 net earnings of $96 million. It is notable that events of 2005/06 provided a unique situation that the Group may never experience again, including the impacts of Hurricane Katrina.

# Message from the Chair

The NB Power Boards of Directors continued to focus on providing direction to management and representing the Shareholder in determining appropriate organizational performance. Throughout the year, the Boards met to review NB Power's performance and ensure a solid plan for the future. It also provided guidance through the Audit, Environment, Health and Safety, Human Resources and Governance and Nuclear Oversight Committees.

In the fall of 2006, a new government was elected. The platform they outlined in their Charter for Change has placed a significant emphasis on the energy sector. It spoke to the need for conservation, generation and increased accountability at NB Power. NB Power was given a mandate to operate on a break-even basis, which will guide NB Power going forward.

On June 30, 2007, Chairman Derek Burney ended his three-year chairmanship of NB Power, which laid the foundation for continued strong governance of NB Power. Mr. Burney served as chair through restructuring, the business excellence program that resulted in significant cost and staff reductions and decisions on refurbishing Point Lepreau Generating Station and building the International Power Line. On behalf of the Board, I would like to thank Derek for his contribution to NB Power and to New Brunswick.

During the year, the NB Power Boards' membership changed. Stephen Campbell was on the Boards from July 2006 to February 2007. In March 2007 Susan Hicks and Leon Furlong left the Boards after their terms expired. On behalf of the Boards, I would like to thank each of them for their contribution and service to the Boards.

NB Power welcomed new members to the Boards. Fraser Walsh joined the Boards in July 2006 and in April 2007, three additional Board members, Edward Barrett, Patrice Merrin Best and Normand Caissie, were appointed. The Boards' structure and membership continues to reflect the focus on effective governance, open communication and clear responsibilities between management and the Boards.

In other developments, the Environment Committee of the Boards expanded its mandate and became the Environment, Health and Safety Committee. This Committee exists to assist the Boards in establishing and maintaining appropriate Board policies that guide the companies in respect to the outcomes to be achieved in meeting or exceeding their environmental and safety obligations. The addition of health and safety to this Committee's focus is a reflection of the integral role health and safety plays in NB Power's continued strong operational performance.

The Boards will continue to focus on providing strategic direction to management, including continued oversight of the Point Lepreau Generating Station refurbishment and International Power Line projects through to successful completion. Our mandate remains to ensure New Brunswickers receive electricity at the lowest possible cost, consistent with safety, reliability and the environment. This will result in a level of excellence which will contribute to a more vibrant New Brunswick.

Norman M. Betts
Chairman (Interim)

# Message from the President and CEO

In 2006/07, NB Power employees continued to strive for a level of excellence that will rank our company among the best-run utilities and that will contribute to a more vibrant New Brunswick. We focused our energy on reliability, performance, excellence and tomorrow.

## Financial Results

NB Power recorded net earnings of $21 million in 2006/07 compared with net earnings of $96 million in 2005/06. The 2005/06 results were rare principally as a result of two abnormal weather conditions. Higher-than-normal precipitation levels meant our hydro system ran at a record 143 per cent of normal flows, which contributed significant low-cost energy. At the same time, Hurricane Katrina disrupted natural gas flows pushing prices to record levels. Given our water and oil export base, we generated extraordinary profits. This past year marks a return to more normalized profit levels.

Fuel and purchased power expenses continued to be an issue in 2006/07 and an average 6.9 per cent rate increase implemented in June 2006 resulted in a revenue shortfall for the year. The NB Power Group is seeking to recover continuing increases in fuel and purchased power expenses and the revenue shortfall of 2006/07 in its 2007/08 rate application currently before the Energy and Utilities Board.

During the year, we were still able to take advantage of our diverse generating system and diverse fuel supply to dispatch generation in order from the lowest to the highest incremental cost. The above-average hydro levels allowed us to operate our hydro generating stations above planned levels to replace the energy of our more expensive units, resulting in decreased energy costs. We also seized opportunities to purchase energy at favourable prices to offset higher generation costs.

## Operational Highlights

NB Power employees continue to focus on strong operational performance. Our operations have never been better. This past year, Point Lepreau Generating Station operated for 289 continuous days. That's the best performance since 1999. And that's in its 23rd year of operations. For the second year in a row our Belledune Generating Station has been rated number one in North America, winning the Electric Utility Cost Group's best performer award. In fact, Statistics Canada reporting shows that our thermal plants, all of our fossil fuel plants, are the most efficient fleet in Canada.

The reliability performance of our distribution system, which brings the wires right to homes in New Brunswick, was the best it had been in 14 years. Beyond that, we've been continuing to reduce our operating costs and preparing for the future. We continued to enhance and cascade our balanced scorecard program and integrated it with risk management and business planning and budgeting for more effective and efficient planning and operations.

In response to rising oil prices and the opportunity afforded by Coleson Cove Generating Station's ability to burn alternative liquid fuels, we began exploring lower-cost alternative fuels. We applied to the Department of Environment to have an alternate fuel test burn project registered for an Environmental Impact Assessment. We have now received the environmental approvals to proceed and have begun preparing to perform the tests at Coleson Cove Generating Station.

The major factors that contributed to the year-over-year decrease in net income were

- reduced hydro flows
- reduced export sales due to the relative price of heavy fuel oil as compared to natural gas
- increased labour and hired service costs

During the year, hydro flows were 17 per cent above the long-term average, which was lower than the hydro flows in 2005/06 that were 43 per cent above the long-term average. The decreased hydro flows resulted in a $51 million increase in energy costs over 2005/06. However, the above-average hydro levels allowed the Group to operate the hydro generating stations above planned levels to replace the energy of more expensive units.

In 2006/07, the price of heavy fuel oil compared to natural gas impacted the Group's exports in the New England market. Export sales were lower because the incremental cost to generate electricity often made it uncompetitive to generate electricity for sale in the export market. The Group took advantage of opportunities to purchase power at favourable prices to offset higher generation costs.

Compared to 2005/06, the Group incurred increased labour and hired services costs in 2006/07. The increase was mainly a result of maintenance preparations for the refurbishment project and succession planning. The impact of these activities was minimized due to the significant cost savings achieved through the Business Excellence program in 2004/05 and sustained year-over-year.



## BUSINESS DEVELOPMENT

Going forward, the NB Power Group will work to ensure a long-term reliable electricity supply at the lowest possible cost, consistent with safety and the environment. It will continue focusing on the following long-term business development projects.

### Point Lepreau Generating Station Refurbishment

On July 29, 2005, the Province of New Brunswick announced its decision to support the Board's recommendation to refurbish the Station in partnership with Atomic Energy of Canada Limited (AECL), the original plant designer. The refurbishment project will extend the Station's life to 2034, providing the NB Power Group with electricity from a fuel source that is not linked to volatility in heavy-fuel-oil pricing. The refurbished Station will also continue to provide an environmental benefit by generating electricity that avoids significant carbon dioxide, sulphur dioxide and nitrogen oxide emissions.

Plant reliability, driven by aging equipment issues, continues to be an ongoing business risk facing the Group. The $1 billion refurbishment project will replace all 380 fuel channels and calandria tube assemblies and feeders. Other equipment replacements, inspections and upgrades will also be undertaken to allow the Station to operate for its extended life.

Planning started in 2000 with a definition of the appropriate scope and schedule for refurbishment. With approval in 2005, the project is now well-underway. It will culminate in an 18-month planned outage that will begin in April 2008 and be completed by September 2009.

The nuclear industry faces significant challenges with respect to refurbishing nuclear stations, including cost over-runs, technical and performance problems. To manage the potential impact of the Point Lepreau Generating Station on the Group and the Province, the NB Power Group has established a governance structure that includes oversight by the Board, the Executive and three external bodies.

The project is proceeding on-time and on-budget. Nuclearco management froze the project scope on November 30, 2006 and evaluated the potential impacts of the probabilistic safety assessment required by the Canadian Nuclear Safety Commission.

On June 30, 2006, the Canadian Nuclear Safety Commission announced it had renewed the Point Lepreau Generating Station's Nuclear Power Reactor Operating Licence to June 30, 2011. Nuclearco will seek the Canadian Nuclear Safety Commission's approval before reloading fuel in the reactor and proceeding with the restart following the planned refurbishment outage. In preparation, Nuclearco is identifying Station improvements and regulatory requirements that will position the Station for long-term safe, reliable operation with a 30-day outage cycle every two years, following refurbishment.

### Preparing for Refurbishment

Genco is being challenged to ready its generation system to run at high availability levels from October 2007 to April 2010, which covers the period of the outage for refurbishment as well as the winter months that precede and follow it.

It has inspected the generating equipment during planned maintenance outages and determined that no major work is required that cannot be completed prior to the refurbishment outage. Genco advanced major maintenance activities into 2006/07 and 2007/08 and activities are proceeding as planned. It also implemented processes to ensure more proactive observation and analysis of the generating system to anticipate and respond to equipment issues before failure.

Transco is also performing proactive maintenance to maintain system reliability and increase import energy capabilities while Point Lepreau Generating Station is out of service. It continues its preventive maintenance and asset upgrades to the existing transmission system to optimize delivery reliability to New Brunswick and the rest of the Maritimes. It has also held discussions with the Independent System Operator – New England regarding issues with the flow of energy from New England.

In August of this year, we settled our lawsuit with Petroleos de Venezuela S. A. (PDVSA). This lawsuit has been a problematic issue for the people of New Brunswick and I am pleased that through the hard work of our management team we have reached successful conclusion. We were able to finalize the lawsuit in the best interest of the people of New Brunswick and are able to pass on the settlement benefit to ratepayers.

In preparation for the future, we have focused on the success of the Point Lepreau Generating Station refurbishment project, the preparations for refurbishment, the International Power Line project and renewable energy.

In 2006/07, the Point Lepreau Generating Station refurbishment project proceeded on time and on budget. Preparations for refurbishment extended beyond Point Lepreau Generating Station. We began preparing the generating and transmission systems to run at high availability levels from October 2007 to April 2010, which covers the period of the outage for refurbishment as well as the winter months preceding and following it.

Our efforts this past year make us confident that we can supply the required capacity and energy during the outage. In March 2007, we secured the supply of the additional replacement energy and capacity required during the Point Lepreau Generating Station refurbishment outage through an international tender process.

The International Power Line project has made tremendous progress over the past fiscal year against a tight construction schedule. We will continue our work to meet the signed construction Commitment Agreement with Bangor Hydro.

We also made significant strides in the renewable energy portfolio with the signing of two agreements to acquire up to 96 MW of wind energy in 2008. We are seeking up to an additional 300 MW by 2010, which accelerates our original wind project implementation plan to acquire 40 MW per year for 10 years.

All of our success can be attributed to the hard work and commitment of our employees. We are fortunate to enjoy a positive relationship with our employees and our union, the International Brotherhood of Electrical Workers Local 37. Together, we accomplished much in 2006/07.

### Going Forward

In 2007/08, our primary focus will be to prepare for the Point Lepreau Generating Station refurbishment outage scheduled for April 2008. As we work towards the outage start date, personnel at the Station are finalizing preparations. We will continue to prepare the generation and transmission systems to ensure a continued reliable supply of electricity.

We will complete the International Power Line, which will be in-service by December 2007. We will also continue to pursue renewable energy opportunities in the province by securing additional wind energy.

We will implement further process improvements through initiatives such as workforce management, outage cycle management at Point Lepreau Generating Station and investments in business solution and core infrastructure technology. We will begin testing an alternative fuel at Coleson Cove Generating Station, which, if successful, will decrease our operating costs.

In the future, we will focus on improving communications with our customers. Our employees will be better equipped to act as ambassadors for NB Power, and will be encouraged to share our success stories in local communities.

Going forward, our commitment to our customers remains the same – we will continue to provide electricity at the lowest possible cost, consistent with safety, reliability and the environment. We will deliver on this commitment in an open and transparent manner for the benefit of New Brunswickers.

David D. Hay
President & Chief Executive Officer

Genco and Disco developed a comprehensive strategy to ensure adequate capacity and energy is available to meet requirements during the Station's refurbishment. The strategy considered Genco assets, the required capacity, associated transmission requirements and transmission congestion issues, market conditions and the availability of third-party supply. Genco determined it could provide approximately 90 per cent of replacement energy and capacity from resources within New Brunswick by operating thermal units at higher availability levels and reducing export sales. In March 2007, the Group secured the supply of the additional replacement energy and capacity required during the Point Lepreau Generating Station refurbishment outage.

### International Power Line

In 2001, Transco partnered with Bangor Hydro to construct the International Power Line, a 345 kV transmission line from the Point Lepreau switchyard to the Orrington, Maine (south of Bangor) switching station. The $60 million project will provide a second major interconnection between New Brunswick and New England. It also increases reliability and efficiency and allows for further market development.

In June 2005, the specific route for the Canadian side of the International Power Line was approved. Transco prepared field documents in compliance with the National Energy Board Certificate of Public Convenience and Necessity and received approvals in December 2005. By January 2006, all permits had been obtained for the construction on the Canadian and U.S. sides.

To ensure commitment to a common project plan, Transco signed a construction Commitment Agreement with Bangor Hydro on April 24, 2006. The agreement outlines a common construction schedule, details about the interconnection point, reporting responsibilities and penalties for failure to meet the construction schedule. The line is scheduled to be in service by December 2007.

Throughout 2006/07, Transco continued with construction, including clearing, foundation installations and erecting structures. Soil conditions and challenging terrain during the construction phase of the project resulted in increased pressure on the project budget. As a result, the Group implemented improved financial controls.

### Alternative Fuels

Genco's oil-fired Coleson Cove Generating Station supplies a significant amount of energy for in-province use and export sales. In response to rising oil prices and the opportunity afforded by Coleson Cove Generating Station's ability to burn alternative liquid fuels, Genco began exploring lower-cost alternative fuels.

Genco has identified and evaluated the availability, costs, schedule and technical viability of alternative lower-cost fuels to burn at Coleson Cove Generating Station. Based on the results, Genco began developing technology to burn a blend of petroleum coke and heavy fuel oil.

An industrial-scale test burn of co-firing petroleum coke and heavy fuel oil was completed in late summer 2006. Test results were favourable, prompting Genco to consider the next phase in the development.

On January 22, 2007, Genco submitted for registration the Demonstration Project and the Conversion Project under the New Brunswick *Environmental Impact Assessment Regulation – Clean Environment Act*. The Demonstration Project was approved by the Department of Environment. It will allow Genco to determine the environmental, technical and economic feasibility of burning petroleum coke and heavy fuel oil at Coleson Cove Generating Station.

At the end of the Demonstration Project, which could last for up to 12 months, Genco will decide whether or not to proceed with the Conversion Project. The Conversion Project would allow NB Power to fully convert up to three units at the Station to burn the lower-cost fuels.

Genco concurrently submitted, for registration, the Conversion Project. Should it receive environmental approval, it will allow Genco to efficiently and expediently convert to lower-cost fuel at Coleson Cove Generating Station.

### Renewable Energy

The development of wind energy projects will increase renewable energy in the province, resulting in local economic development, increased diversity of power supply and a greater reliance on domestic resources for electricity generated and sold in New Brunswick. It also supports the provincial government's target to have an additional 10 per cent of New Brunswick's generation capacity come from renewable sources by 2016 and will help meet the targets for emission reductions as required under the *Clean Air Act*.

In 2007, the NB Power Group entered into agreements to acquire up to 96 MW of wind energy in 2008. The agreements include a construction agreement with major milestones and monthly reporting to the NB Power Group. The Group's commitment is to purchase up to an additional 300 MW of wind energy by 2010. This accelerates NB Power's original wind project implementation to acquire 40 MW per year for 10 years.

NB Power continues to explore generation from other renewable sources, such as biomass, landfill gas, small hydro, solar and tidal, to meet the provincial government's renewable energy targets.

# Focusing on Reliability

***NB Power is focused on providing reliable electricity supply for customers' homes and businesses, seven days a week, 365 days a year***

At NB Power our focus is powering homes and businesses across New Brunswick. In 2006/07, our 14 conventional generating stations ran at high availability so that when customers needed energy in their daily lives – it was there.

From the time our customers woke up in the morning and turned on the first light to the time they shut out the last light before heading to bed, they were delivered reliable supply. And our record just keeps getting better – our 2006/07 distribution reliability record was the best in 14 years.

When lightning struck the transmission system throughout the spring and summer months, customers were able to count on NB Power. The frequency of interruptions that lasted more than one minute decreased, meaning customers experienced fewer power interruptions than they had over the last five years.

In 2006/07, the Point Lepreau Generating Station operated continuously for 289 days. That meant New Brunswickers enjoyed nuclear energy produced from a fuel source that avoids air emissions and provides more price stability than fossil fuels.

Looking forward, NB Power will continue to invest in our generating stations and transmission and distribution networks to ensure reliable supply for today and into the future.

## Financial and Operating Statistics

### Variability in Earnings

In the normal course of operations, the NB Power Group is subject to significant variability in earnings before interest and taxes. Large components of operating earnings are outside management's control, resulting in significant swings in year-to-year results.

| Financial and Operating Performance Factors | 2006/07 | 2005/06 | 2004/05 |
|---|---|---|---|
| Hydro net generation as percentage of long-term average | **117%** | 143% | 106% |
| Point Lepreau Generating Station net capacity factor | **78.2%** | 78.4% | 76.7% |
| Average heavy fuel oil price ($US /bbl Platt's NY 3 per cent) | **$43.55** | $40.42 | $26.50 |
| Average natural gas price ($US /mmbtu) | **$6.82** | $9.35 | $6.12 |
| Average ICR* coal marker price ($US / ton) | **$60.27** | $53.82 | $65.32 |
| Average New England on-peak prices ($US/MWh)** | **$66.91** | $84.27 | $59.85 |
| Canadian dollar at March 31 ($US equivalent) | **$0.866** | $0.857 | $0.828 |

* International Coal Report ** net of congestion and marginal losses

The following factors are major drivers of variability and have a significant impact on financial performance because they affect the cost of generation or price competitiveness in export markets.

- Hydro Generation – Hydro is the NB Power Group's lowest-cost fuel to generate electricity and typically accounts for approximately 15 per cent of total production. When flows are below anticipated levels, other more expensive fuels are used to account for the shortfall, thereby increasing generation costs. Conversely, when flows are higher than anticipated levels, hydro generation reduces the use of expensive fuels and thereby decreases generation costs.

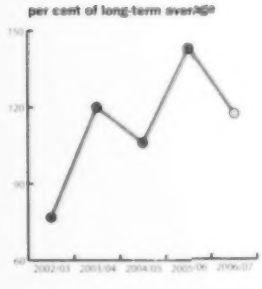
- Nuclear Generation – Point Lepreau Generating Station supplies 25 to 30 per cent of New Brunswick's energy requirements, and up to 25 per cent of total production. Consequently, consistent performance from the Point Lepreau Generating Station is essential to positive financial performance. Planned maintenance outages have been scheduled annually with increased emphasis on feeder inspections.

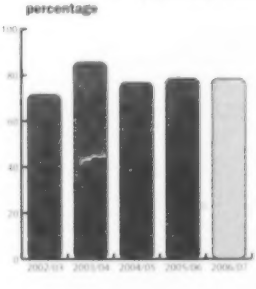
- Oil Prices – Heavy fuel oil typically accounts for 20 to 25 per cent of total production, represents approximately 35 per cent of fuel and purchased power costs and is also used as the replacement fuel when low-cost nuclear and hydro generation is unavailable. To minimize its short- to medium-term heavy fuel oil price exposure, the Group purchases 18 months forward the heavy fuel oil that meets its forecasted in-province and firm export requirements.

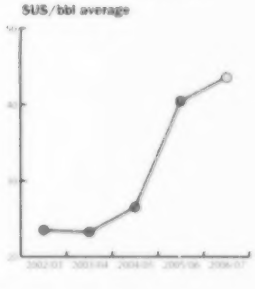
- Natural Gas Prices – The Group has two purchased power contracts tied to natural gas prices. These purchase power contracts typically account for approximately 10 per cent of total production and represent 25 to 30 per cent of the total fuel and purchased power costs. Natural gas price fluctuations will affect the cost to supply in-province load. The Group enters into forward purchase contracts for a significant percentage of the natural gas price exposure.

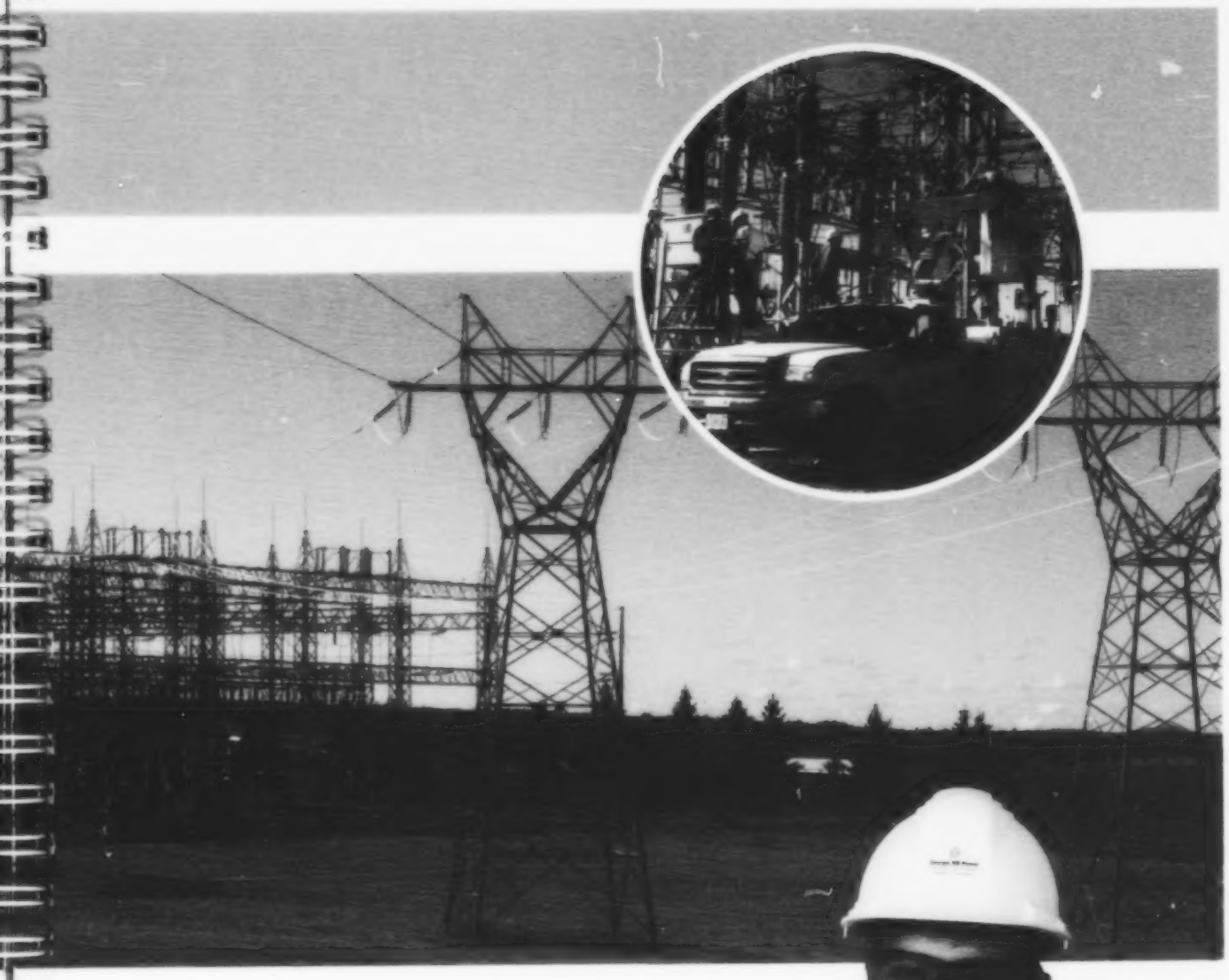
- Coal Prices – Coal accounts for approximately 20 per cent of total production and represents 15 per cent of total fuel and purchased power costs. It is purchased through tendered contracts of one to two years.

- Exchange Rates – The Group is exposed to foreign exchange risk through fuel and purchased power priced in US dollars that exceeds revenue received in US dollars. The Group enters into forward purchase contracts for a significant portion of the known and forecasted US dollar requirements, net of expected US dollar revenue.





*"We make sure all of the transmission equipment is tested, up to spec and working well so that we prevent transmission failures and deliver a reliable supply. Our customers can depend on us to provide reliable power for their everyday lives."*

Greg Jenkins, High Voltage Electrical Mechanic

| Financial Performance (in millions) | 2006/07 | 2005/06 | 2004/05 |
|---|---|---|---|
| Net earnings (loss) | **$21** | $96 | $9 |
| Cash flow from operations | **$238** | $319 | $245 |
| Free cash inflow (outflow) | **$(62)** | $54 | **$**(161) |
| Reduction (increase) in net debt | **$(84)** | $26 | $204 |

| Financial Ratios and Percentages | 2006/07 | 2005/06 | 2004/05 |
|---|---|---|---|
| Operating margin | **13%** | 21% | 14% |
| Operating cash flow/capital expenditures | **0.83x** | 1.53x | 0.72x |
| Operating cash flow/total debt | **0.07x** | 0.10x | 0.08x |
| Per cent of debt in capital structure | **93%** | 93% | 96% |
| Interest coverage ratio | **1.03x** | 1.74x | 0.97x |

The NB Power Group recorded net earnings of $21 million in 2006/07 compared with net earnings of $96 million in 2005/06.



The most significant factor contributing to the change in year-over-year net earnings was a $120 million decrease in gross margin. Major contributors to the decrease in gross margin were

- reduced hydro flows in 2006/07 at 17 per cent above the long-term average compared to 43 per cent above the long-term average in 2005/06, which resulted in increased energy costs
- lower export sales because the incremental cost to generate electricity was higher, which often made it uncompetitive to generate electricity for sale in the export market

offset by

- higher in-province revenue due to the implementation of an approved 6.9 per cent average rate increase, higher industrial sales volumes and higher sales due to colder weather

Another factor contributing to the change in year-over-year net earnings was

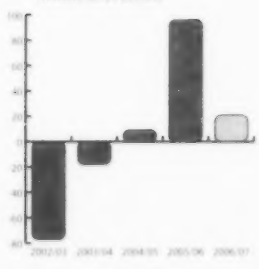
- increased operations, maintenance and administration costs mainly due to labour and hired service costs related to planned outages at Point Lepreau Generating Station and certain major thermal generating stations

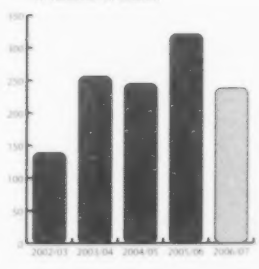
Positive factors that offset the impact of these cost increases included

- lower special payments in lieu of income taxes arising from lower earnings
- lower finance charges mainly due to lower debt balances for most of the year and debt being refinanced at lower rates

Cash flow from operations in 2006/07 decreased by $81 million to $238 million. This resulted primarily from the decrease in net earnings.

The NB Power Group's debt increased by $84 million in 2006/07. This increase was primarily as a result of increased borrowing required in the fourth quarter for the Point Lepreau Generating Station refurbishment project and the International Power Line project.



## Operating Results 2006/07

| Revenue Overview (in millions) | 2006/07 | 2005/06 | 2004/05 |
|---|---|---|---|
| Sales of power | | | |
| In-province | **$1,146** | $1,056 | $1,049 |
| Out-of-province | **215** | 379 | 251 |
| Miscellaneous | **73** | 73 | 62 |
| Transmission | **78** | 77 | 41 |
| **Total revenues** | **$1,512** | $1,585 | $1,403 |
| **Per cent increase (decrease) year-over-year** | **(5%)** | 13% | 7% |

Total revenues were $1,512 million in 2006/07, a decrease of $73 million or five per cent, from 2005/06.

| In-province Revenue (in millions) | 2006/07 | 2005/06 | 2004/05 |
|---|---|---|---|
| Residential | **$470** | $436 | $427 |
| Industrial | **350** | 310 | 319 |
| General service | **225** | 213 | 203 |
| Wholesale | **87** | 82 | 81 |
| Street lights and energy imbalance | **14** | 15 | 19 |
| **Total** | **$1,146** | $1,056 | $1,049 |
| **GWh** | **14,342** | 13,886 | 14,606 |

In-province revenue was $1,146 million in 2006/07, representing a $90 million or eight per cent increase from 2005/06. The main contributors to the year-over-year variance were a

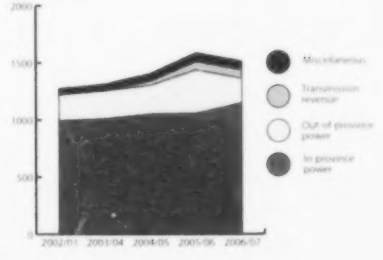
- $61 million increase due to a 6.9 per cent average rate increase implemented July 1, 2006
- $15 million increase due to higher industrial sales volumes mainly related to return to normal pulp and paper industry operations following strikes and shutdowns in 2005/06
- $4 million increase due to higher interruptible sales
- $8 million increase due to higher sales volumes in residential and general service sectors due to colder-than-normal weather

| Out-of-province Revenue (in millions) | 2006/07 | 2005/06 | 2004/05 |
|---|---|---|---|
| Revenue | **$215** | $379 | $251 |
| GWh | **2,815** | 4,682 | 3,813 |

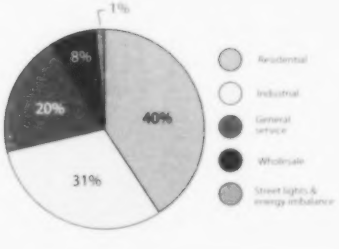
In 2006/07, out-of-province revenue decreased by $164 million or 43 per cent from 2005/06. The main contributors to the year-over-year variance were a

- $19 million decrease due to lower average prices for export energy
- $146 million decrease because the incremental cost to generate electricity was higher, which often made it uncompetitive to generate electricity for sale in the export market

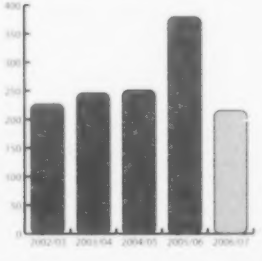
Revenue Analysis
in millions of dollars




In-province Revenue




Out-of-province Revenue
in millions of dollars



### Miscellaneous Revenue

Miscellaneous revenue consists primarily of water heater rentals, pole attachment fees, the sale of steam and generation by-products and fees for secondment services provided to the New Brunswick System Operator (System Operator), which commenced after October 1, 2004. Miscellaneous revenue remained at $73 million in 2006/07, equivalent to 2005/06. This was primarily due to increased surcharges related to higher arrears, water heater rentals and sale of scrap materials offset by a decrease in pole attachment fees, facility rental and other miscellaneous items.

### Transmission Revenue and Expense

The transmission revenue represents recoveries from the System Operator for the transmission revenue requirement. The transmission expense includes charges for connection fees, point-to-point tariff and scheduling services.

## EXPENSES

| **Expenses Overview (in millions)** | **2006/07** | | 2005/06 | | 2004/05 | |
|---|---|---|---|---|---|---|
| | **$** | **%** | $ | % | $ | % |
| Fuel and purchased power | **$560** | **38%** | $512 | 34% | $497 | 36% |
| Operations, Maintenance and Administration | **389** | **26** | 373 | 25 | 384 | 28 |
| Amortization and decommissioning | **220** | **15** | 217 | 15 | 219 | 15 |
| Transmission | **85** | **6** | 86 | 6 | 46 | 3 |
| Taxes | **49** | **3** | 47 | 3 | 41 | 3 |
| Finance charges | **180** | **12** | 199 | 13 | 202 | 15 |
| Special payments | **8** | **0** | 55 | 4 | 5 | - |
| **Total** | **$1,491** | **100%** | $1,489 | 100% | $1,394 | 100% |
| **Percentage increase (decrease) year-over-year** | | **0%** | | 7% | | 5% |

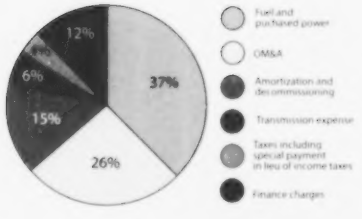
Total expenses increased in 2006/07 by $2 million to $1,491 million. This increase resulted mainly from a

- $48 million increase in fuel and purchased power mainly due to increased prices and lower hydro availability in 2006/07, offset by lower energy required for exports
- $16 million increase in operations, maintenance and administration costs, primarily due to labour, pension and hired service costs related to planned outages
- $2 million increase in taxes mainly related to property taxes
- $3 million increase in amortization expense

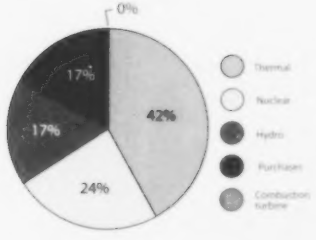
offset by

- $19 million decrease in finance charges due to lower long-term debt rates and balances outstanding for most of the year
- $47 million decrease in special payments in lieu of income and capital taxes paid to New Brunswick Electric Finance Corporation (Electric Finance)

Total Expenses




GWh Production



| Fuel and Purchased Power (in millions) | 2006/07 | | 2005/06 | | 2004/05 | |
|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % |
| Hydro | **$0** | **0%** | $0 | 0% | $0 | 0% |
| Nuclear | **12** | **2** | 11 | 2 | 9 | 2 |
| Thermal | **297** | **53** | 351 | 69 | 366 | 74 |
| Purchases | **251** | **45** | 150 | 29 | 122 | 24 |
| **Total** | **$560** | **100%** | $512 | 100% | $497 | 100% |

The cost of fuel and purchased power was $560 million in 2006/07, a $48 million or nine per cent increase from 2005/06. Heavy fuel oil represented 28 per cent of this cost while purchased power from utilities in Nova Scotia, Maine, Quebec and New Brunswick accounted for 45 per cent. The year-over-year increase in fuel and purchased power costs was attributable to

- $51 million increase in energy costs due to a decrease in hydro flows to 117 per cent of the long-term average in 2006/07 compared to 143 per cent in 2005/06
- $90 million increase in costs due to higher overall fuel and purchased power prices
- $22 million increase in costs due to different amounts of energy produced from coal, petroleum coke, heavy fuel oil and purchased power

offset by

- $105 million cost reduction since lower overall levels of energy were required for the fewer out-of-province sales
- $10 million decrease in cost due to increased opportunities to purchase power at favourable prices to offset higher generation costs



| Operations, Maintenance and Administration (in millions) | 2006/07 | 2005/06 | 2004/05 |
|---|---|---|---|
| Operations, Maintenance and Administration expenses | **$389** | $373 | $384 |

Operations, maintenance and administration costs were $389 million in 2006/07, a $16 million or four per cent increase over 2005/06. This was mainly due to

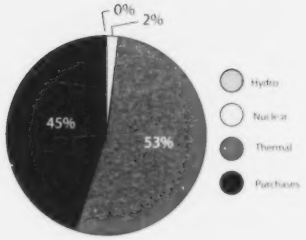
- $8 million increase in annual salaries from non-union increases and collective agreement increases
- $5 million increase for higher pension current service costs, mainly related to a change in discount rate
- $2 million increase for higher pension interest and amortization due to lower return on plan assets in 2006/07
- $13 million increase in hired services due to increased scope and activities during planned outages at the Point Lepreau Generating Station and certain major thermal stations in preparation for the 18-month Point Lepreau Generating Station refurbishment outage

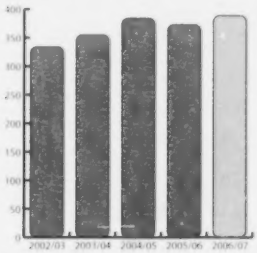
offset by

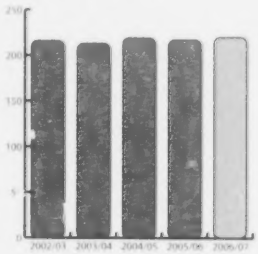
- $12 million decrease related to lower bad debts, lower regulatory costs and increased overhead allocations to capital projects

| Amortization and Decommissioning (in millions) | 2006/07 | 2005/06 | 2004/05 |
|---|---|---|---|
| Amortization and decommissioning | **$220** | $217 | $219 |

Amortization and decommissioning costs were $220 million in 2006/07, a $3 million or one per cent increase from 2005/06, due to a number of small increases.



## 9. FINANCE CHARGES

| | 2007 | 2006 |
|---|---|---|
| Interest expense | **$198** | $197 |
| Less: Earnings from trust funds and other investments | **(14)** | (10) |
| | **184** | 187 |
| Debt portfolio management fee | **20** | 20 |
| Realized foreign exchange (gains) or losses | **(2)** | 2 |
| | **202** | 209 |
| Less: Interest capitalized | **(22)** | (10) |
| **Finance charges** | **$180** | $199 |

Interest paid during the year was $204 million, as compared to $198 million in 2006. Interest received on investments during the year was $13 million, as compared to $11 million in 2006.

## 10. SPECIAL PAYMENTS IN LIEU OF INCOME TAXES

| | 2007 | 2006 |
|---|---|---|
| Earnings before special payments in lieu of income taxes | **$29** | $151 |
| Less: Subsidiary earnings not subject to special payments in lieu of income taxes | **(3)** | (5) |
| Earnings subject to special payments in lieu of income taxes | **26** | 146 |
| Income tax rate | **35.12%** | 35.12% |
| | **9** | 51 |
| Special payments in lieu of federal capital taxes | **(1)** | 4 |
| **Total special payments in lieu of income taxes** | **$8** | $55 |

### Components of Special Payments In Lieu of Income Taxes

| | 2007 | 2006 |
|---|---|---|
| Provision for current special payments in lieu of income taxes | **$20** | $51 |
| Provision for future special payments in lieu of income taxes | **(11)** | - |
| Special payments in lieu of federal capital taxes | **(1)** | 4 |
| | **$8** | $55 |

Special payments in lieu of income taxes are calculated at a subsidiary company level.

## 11. CAPITAL STOCK

The Corporation has one Class A voting common share of nominal value, issued and outstanding to the New Brunswick Minister of Energy.

The Corporation has 1,006 Class B non-voting common shares issued and outstanding to Electric Finance with a stated value of $140 million.

The Corporation, with Electric Finance's approval, is authorized to issue an unlimited number of Class A or Class B shares without nominal or par value.

### Dividends

The holder of the Class B shares, Electric Finance, is entitled to receive dividends when declared by the Corporation's Board of Directors. The designated percentage of the dividends declared may vary based upon the discretion of the Shareholder and the financial position of the Corporation. The holder of the Class A shares cannot be paid dividends until such time that there are no longer any Class B shares outstanding.

Dividends are declared and paid at a subsidiary company level.

## 12. CASH AND SHORT-TERM INVESTMENTS

| | 2007 | 2006 |
|---|---|---|
| Cash | **$6** | $18 |
| Short-term investments | **24** | 3 |
| **Cash and short-term investments** | **$30** | $21 |

| Taxes (in millions) | 2006/07 | 2005/06 | 2004/05 |
|---|---|---|---|
| Taxes | **$49** | $47 | $41 |

Taxes other than special payments in lieu of income taxes were $49 million in 2006/07, a $2 million or four per cent increase from 2005/06 mainly due to increased property tax expense for higher asset values.

| Finance Charges (in millions) | 2006/07 | 2005/06 | 2004/05 |
|---|---|---|---|
| Finance charges | **$180** | $199 | $202 |

Finance charges were $180 million in 2006/07, a $19 million or 10 per cent decrease from 2005/06. This was mainly due to

- $11 million decrease related to maturing debt issues refinanced at lower rates
- $12 million increase in interest capitalized mainly related to the Point Lepreau Generating Station refurbishment project and the International Power Line project
- $4 million decrease resulting from higher realized foreign exchange gains due to exchange rate fluctuations
- $4 million decrease resulting from higher interest earned on the nuclear decommissioning and used fuel management funds due to higher rates and balances outstanding

offset by

- $7 million increase in interest on short-term debt due to higher rates and balances throughout the year
- $5 million increase related to higher long-term debt balances outstanding mainly as a result of increased capital spending

| Special Payments in Lieu of Income Taxes (in millions) | 2006/07 | 2005/06 | 2004/05 |
|---|---|---|---|
| Special payments in lieu of income taxes | **$8** | $55 | $5 |

The NB Power Group made special payments in lieu of income taxes to Electric Finance. These payments consist of an income tax component based on accounting net earnings multiplied by a rate of 35.12 per cent.

Special payments in lieu of income taxes were $8 million in 2006/07, a $47 million decrease from 2005/06. This decrease was due to lower earnings and the elimination of the federal large corporate tax component in 2006/07.

## LIQUIDITY AND CAPITAL RESOURCES

| Capital Expenditures (in millions) | 2006/07 | 2005/06 | 2004/05 |
|---|---|---|---|
| Major project capital expenditures | **$182** | $102 | $220 |
| Regular project capital expenditures | **105** | 107 | 115 |
| **Total capital expenditures** | **$287** | $209 | $335 |

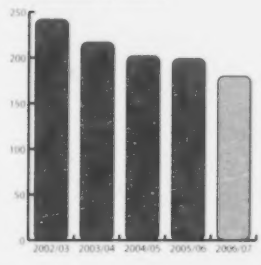
Capital expenditures, net of proceeds on disposal and customer contributions, were $287 million in 2006/07. This $78 million or 37 per cent increase from 2005/06 resulted from a

- $39 million increase in Point Lepreau Generating Station refurbishment project spending
- $34 million increase in the International Power Line project spending
- $9 million increase in regular capital expenditures

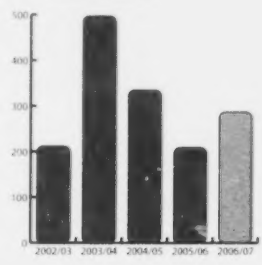
offset by

- $4 million decrease due to completion of the Courtenay Bay Generating Station upgrade project

Finance Charges
in millions of dollars




Capital Expenditures
in millions of dollars



## 13. Property, Plant and Equipment

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Net book value** | Cost | Accumulated amortization | Net book value |
| Power generating stations | **$4,545** | **$2,441** | **$2,104** | $4,476 | $2,312 | $2,164 |
| Transmission system | **293** | **149** | **144** | 293 | 143 | 150 |
| Terminals and substations | **471** | **252** | **219** | 464 | 241 | 223 |
| Distribution system | **759** | **355** | **404** | 741 | 336 | 405 |
| Buildings and properties | **59** | **34** | **25** | 59 | 33 | 26 |
| Communications and computer systems | **106** | **71** | **35** | 100 | 60 | 40 |
| Mining equipment | **52** | **52** | **-** | 53 | 53 | - |
| Motor vehicles | **50** | **35** | **15** | 49 | 33 | 16 |
| Miscellaneous assets | **17** | **11** | **6** | 15 | 10 | 5 |
| Construction in progress | **453** | **-** | **453** | 251 | - | 251 |
| **Total** | **$6,805** | **$3,400** | **$3,405** | $6,501 | $3,221 | $3,280 |



## 14. Nuclear Decommissioning and Used Fuel Management Funds

The Corporation has established a used nuclear fuel segregated fund held in a custodial account to meet the license conditions of the Point Lepreau Generating Station set by the Canadian Nuclear Safety Commission (CNSC). Funding requirements are reviewed at the time of each license renewal (see item 1 below).

The Corporation has also established a trust fund pursuant to the *Nuclear Fuel Waste Act*. The *Nuclear Fuel Waste Act* requires major owners of used nuclear fuel in Canada to establish trust funds to finance the long-term management of used nuclear fuel. The Act requires the Corporation to contribute $4 million annually in November of each year until a long-term disposal plan is chosen. Further funding requirements beyond this time will be based on the plan chosen (see Note 4(f)). The funds contained in the established fund to meet the license conditions of the generating station described above will also be used to meet these requirements (see item 2 below).

The Corporation has established a decommissioning segregated fund held in a custodial account to meet the license conditions for the Point Lepreau Generating Station set by the CNSC.

| | **2007** | 2006 |
|---|---|---|
| **Used Nuclear Fuel Management Funds** | | |
| 1. Used nuclear fuel segregated fund | **$86** | $85 |
| 2. Used nuclear fuel trust fund | **38** | 33 |
| | **124** | 118 |
| **Nuclear Decommissioning Fund** | | |
| Decommissioning segregated fund | **117** | 111 |
| **Total nuclear decommissioning and used fuel management funds** | **$241** | $229 |

## 15. Other Investments

The Corporation entered into a 15-year agreement to have an outside party build and operate an ash separation facility at the Belledune Generating Station to process the fly ash produced at the plant. The $6 million (2006 - $6 million) investment represents the Corporation's required share of the cost of the facility. Pursuant to this agreement, the Corporation will receive royalties on the sale of the processed ash over the term of the agreement.

| Cash Flow from Operations (in millions) | 2006/07 | 2005/06 | 2004/05 |
|---|---|---|---|
| Cash flow from operations | **$238** | $319 | $245 |

Cash flow from operations in 2006/07 decreased by $81 million to $238 million, resulting primarily from decreased net earnings.

| Free Cash Inflow (Outflow) (in millions) | 2006/07 | 2005/06 | 2004/05 |
|---|---|---|---|
| Cash flow from operations | **$238** | $319 | $245 |
| Capital expenditures | **(287)** | (209) | (335) |
| Other investments | **0** | 0 | (6) |
| Decrease (increase) in working capital | **13** | (11) | (51) |
| Nuclear decommissioning and used fuel management funds installments and earnings | **(13)** | (40) | (13) |
| Deferred debt costs | **(10)** | - | - |
| Other | **(3)** | (5) | (1) |
| **Free cash inflow (outflow)** | **$(62)** | $54 | $(161) |

Free cash outflow was $62 million in 2006/07, a $116 million decrease over 2005/06, primarily as a result of

- increased capital spending
- decreased cash flow from operations due to lower net earnings
- a timing-related decrease in nuclear decommissioning and used fuel management funds installments



| Reduction (Increase) in Net Debt (in millions) | 2006/07 | 2005/06 | 2004/05 |
|---|---|---|---|
| Free cash inflow (outflow) | **$(62)** | $54 | $(161) |
| Foreign exchange adjustment and deferred debt costs | **0** | 0 | (3) |
| Net reduction in debt due to restructuring | **0** | 0 | 365 |
| Dividends paid | **(13)** | (11) | - |
| Change in cash | **(9)** | (17) | 3 |
| **Reduction (increase) in net debt** | **$(84)** | $26 | $204 |

Net debt was $84 million higher at March 31, 2007 compared to March 31, 2006. This was mainly due to

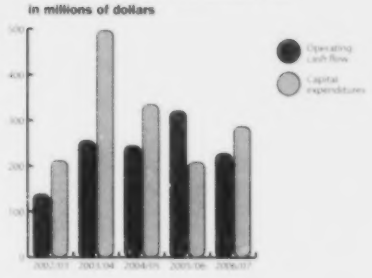
- decreased free cash flow
- payment of dividends

| Total Net Debt (in millions) | 2006/07 | 2005/06 | 2004/05 |
|---|---|---|---|
| Long-term debt | **$3,214** | $2,887 | $2,816* |
| Short-term indebtedness | **0** | 243 | 340 |
| **Total net debt** | **$3,214** | $3,130 | $3,156 |
| Debt/capital | **93%** | 93% | 96% |
| Cash flow from operations/total debt | **0.07** | 0.1 | 0.08 |

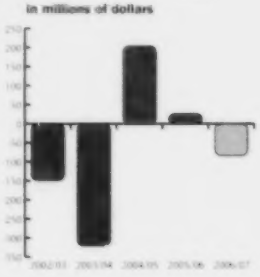
* Long-term debt is net of sinking fund investments

The NB Power Group's debt levels are increasing due to the refurbishment of Point Lepreau Generating Station and construction of the second International Power Line. The level of short-term borrowings fluctuates depending on the timing of debt maturities and capital investment requirements. Since restructuring on October 1, 2004 the Corporation issues long- and short-term notes to Electric Finance. Under the authority of the *Electricity Act*, Electric Finance issues debt in the name of the Province of New Brunswick.

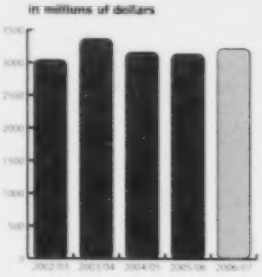
Components of Free Cash Flow




Reduction in Net Debt




Total Net Debt



## 16. DEFERRED PENSION BENEFIT

Corporation employees, other than NB Coal employees, are members of the Province of New Brunswick Public Service Superannuation Plan as described in Note 4(g). Pension assets and liabilities for the Public Service Superannuation Plan are measured as at March 31, 2007 while the assets and liabilities for the NB Coal plan are measured as at December 31, 2006. The most recent actuarial valuation done for funding purposes for the Public Service Superannuation Plan was April 1, 2005. The next valuation for funding purposes is required to be completed as at April 1, 2008.

Management's significant assumptions include the following

- 5.25 per cent discount rate used to determine the accrued benefit obligation, as compared to 5.25 per cent discount rate in 2006
- 6.25 per cent expected long-term rate of return on plan assets, as compared to 6.25 per cent in 2006
- 2.5 per cent salary increases, as compared to 2.5 per cent increases in 2006

The costs recognized for the period are

| | **2007** | 2006 |
|---|---|---|
| Current service cost | **$21** | $16 |
| Interest on accrued benefit obligation | **60** | 57 |
| Actual gain on plan assets | **(79)** | (129) |
| Difference between actual and expected return on plan assets | **19** | 73 |
| Actuarial losses on accrued benefit obligation | **11** | 94 |
| Difference between actuarial loss recognized for the year and actuarial loss on accrued benefit obligation for the year | **(1)** | (85) |
| Amortization of transitional asset | **(3)** | (3) |
| **Costs recognized** | **$28** | $23 |

The status of the assets and obligations of the Corporation's share of the Public Service Superannuation Plan and NB Coal's private plan as at March 31, 2007 was as follows

| | **2007** | 2006 |
|---|---|---|
| Pension fund assets at fair value | **$1,038** | $964 |
| Accrued benefit obligation | **1,187** | 1,123 |
| Pension deficit | **(149)** | (159) |
| Unamortized transitional asset | **(30)** | (34) |
| Unamortized losses | **246** | 263 |
| **Deferred pension benefit** | **$67** | $70 |

In accordance with prescribed regulations, employees contributed $10 million in 2007, as compared to $10 million in 2006, and the Corporation contributed $24 million to the plans during the year, as compared to $23 million in 2006. As a result of total contributions in excess of pension expense, the Corporation has recorded a $67 million deferred charge compared to $70 million in 2006.

## 17. SHORT-TERM INDEBTEDNESS

The Corporation borrows funds for temporary purposes from Electric Finance. The short-term borrowings due to Electric Finance were nil at March 31, 2007, as compared to $243 million in 2006.

## 18. LONG-TERM DEBT

The Corporation borrows funds from Electric Finance to finance long-term requirements. Long-term borrowings at year-end were as follows

| | **2007** | 2006 |
|---|---|---|
| Debentures held by Electric Finance | **$3,214** | $2,887 |
| Less: Current portion | **(345)** | (232) |
| **Long-term debt** | **$2,869** | $2,655 |

### Terms

The maturity dates of the debentures range from 2007 to 2034. The terms of the debentures are such that the Corporation is required to make annual principal repayments of one per cent of the original amount of each debenture on the anniversary date of its maturity. These payments will be made until the actual maturity dates of the debentures, at which time the remaining principal amounts will be repaid.

### Interest Rates

The debentures bear interest at fixed rates ranging from 3.82 to 10 per cent. The weighted average coupon interest rate on all debentures outstanding at March 31, 2007 is 6.02 per cent as compared to 6.25 per cent in 2006.

### Debt Portfolio Management Fee

The Corporation pays an annual debt portfolio management fee to Electric Finance amounting to 0.6489 per cent of the total of long-term debt and short-term indebtedness, measured as at the beginning of the fiscal year.

### Principal Repayments

Long-term debt principal repayments are due as follows

| **Year Ending** | **Principal Repayment** |
|---|---|
| March 31, 2008 | $345 |
| March 31, 2009 | 278 |
| March 31, 2010 | 403 |
| March 31, 2011 | 84 |
| March 31, 2012 | 529 |
| March 31, 2013 and thereafter | 1,575 |

## Significant Accounting Estimates

### Amortization

The NB Power Group has an amortization review process whereby the service lives of major asset categories are reviewed every five years or more frequently as circumstances warrant. These reviews include physical inspection of the asset, a review of maintenance and retirement history, technological obsolescence and industry practices. During 2006/07 an independent firm commenced an amortization review of the asset categories that will be completed in 2007/08. The current estimated useful lives of assets are in Note 4(a) of the Financial Statements.

The amortization expense for the year ended March 31, 2007 is $202 million, as compared to $200 million in 2006.

### Plant Decommissioning and Used Nuclear Fuel Management

Effective April 1, 2002, the NB Power Group adopted the Canadian Institute of Chartered Accountants' standard for asset retirement obligations requiring recognition of the net present value of these liabilities when incurred. The key assumptions on which the liabilities are based are disclosed in Note 19 of the Financial Statements and these assumptions are updated on a periodic basis.

The Government of Canada enacted the *Nuclear Fuel Waste Act* in 2002 creating the Nuclear Waste Management Organization. The organization's mandate is to recommend to the federal government the best approach for management of used nuclear fuel waste. The Nuclear Waste Management Organization submitted its recommendations to the federal government in November 2005. The approach selected by the federal government could significantly change the liability currently recorded in the Financial Statements for used nuclear fuel management.



The thermal and nuclear decommissioning expense for the year ended March 31, 2007 is $18 million, as compared to $17 million in 2006.

### Future Employee Benefits

Employees of the NB Power Group belong to the Province of New Brunswick's superannuation defined benefit pension plan (see Note 16 of the Financial Statements). The Group also has a retirement allowance program and at times has early retirement costs (see Note 20).

### Unbilled Revenue

As the NB Power Group bills residential and general service customers on a cyclical basis, the revenue for energy supplied but not billed at the end of each fiscal period is estimated and recorded. This estimate is based on substation readings and average rates. The unbilled revenue accrued at March 31, 2007 was $33 million, as compared to $36 million in 2006.

### Overhead to Capital

As described in Note 4(a) of the Financial Statements, the Corporation adds an overhead charge to capital projects for indirect charges for administration and other expenses. The amount of overhead charged to capital in the year ended March 31, 2007 is $11 million, as compared to $11 million in 2006. The NB Power Group's overhead allocation methodology was reviewed by an independent firm during 2006/07 and the study found the Group's methodology reasonable and in accordance with industry standards and practice.

### Subsequent Event

On August 3, 2007 the Corporation settled the legal action against Petroleos de Venezuela, S. A. (PDVSA) and others. The settlement includes a cash portion of $115 million and an in-kind portion representing a commitment to deliver fuel. The in-kind portion of the settlement will be realized over time. The Corporation is in the process of determining the precise impact the settlement will have on its current and future financial statements.

## 19. Plant Decommissioning and Used Nuclear Fuel Management

The Corporation's nuclear generating station produces used nuclear fuel in the form of radioactive fuel bundles. The used nuclear fuel will need to be disposed of and the nuclear station will need to be dismantled and decommissioned at the end of its service life.

The Corporation also provides for decommissioning its thermal generating stations at the end of their service lives.

The liability for plant decommissioning and used nuclear fuel management consists of the following

| | 2007 | 2006 |
|---|---|---|
| **Used Nuclear Fuel Management** | | |
| Balance, beginning of year | **$146** | $136 |
| Add: Liabilities incurred, net of revisions to cash flows | **37** | 5 |
| Add: Accretion expense | **10** | 9 |
| Less: Expenditures | **(1)** | (4) |
| **Balance, end of year** | **192** | 146 |
| **Nuclear Decommissioning** | | |
| Balance, beginning of year | **72** | 75 |
| Add: Accretion expense | **5** | 5 |
| Less: Liabilities incurred, net of revisions to cash flows | **-** | (8) |
| **Balance, end of year** | **77** | 72 |
| **Thermal Decommissioning** | | |
| Balance, beginning of year | **43** | 40 |
| Add: Liabilities incurred, net of revisions to cash flows | **3** | 1 |
| Add: Accretion expense | **3** | 3 |
| Less: Expenditures | **(1)** | (1) |
| **Balance, end of year** | **48** | 43 |
| **Total used nuclear fuel management and plant decommissioning liability** | **$317** | $261 |

### Liability for Used Nuclear Fuel Management

The liability for used nuclear fuel management costs represents the cost of managing the used nuclear fuel bundles generated by the nuclear generating station. See Note 14 for details on the funding of this liability. The key assumptions on which the liability is based are

- $982 million is the total undiscounted amount of the estimated cash flows required to settle the liability, as compared to $922 million in 2006
- the management of the used nuclear fuel will require cash expenditures until 2174 to settle the liability
- the credit-adjusted risk-free rates at which the estimated cash flows have been discounted is 7.1 per cent for the initial recognition of the liability and 5.9 per cent and 5.2 per cent for the subsequent recognition of the additional liability

### Liability for Nuclear Decommissioning

The liability for nuclear decommissioning represents the costs of decommissioning the nuclear generating station after the end of its service life. See Note 14 for details on the funding of this liability. The key assumptions on which the liability is based are

- $672 million is the total undiscounted amount of the estimated cash flows required to settle the liability as compared to $656 million in 2006
- the decommissioning of the nuclear generating station will require cash expenditures until 2076 to settle the liability
- the credit-adjusted risk-free rates at which the estimated cash flows have been discounted is 7.1 per cent for the initial recognition of the liability and 5.9 per cent for the subsequent recognition of the additional liability

### Liability for Thermal Decommissioning

The liability for thermal decommissioning represents the costs of decommissioning the thermal generating stations after the end of their service lives. The liability is not funded. The key assumptions on which the liability is based are

- $118 million is the total undiscounted amount of the estimated cash flows required to settle the liability, as compared to $111 million in 2006
- the decommissioning of the thermal generating stations will require cash expenditures until 2035 to settle the liability
- the credit-adjusted risk-free rates at which the estimated cash flows have been discounted are 7.1 per cent for the initial recognition of the liability and 5.3 to 6.3 per cent for the subsequent recognition of the additional liability

## 20. DEFERRED LIABILITIES – OTHER

| | 2007 | 2006 |
|---|---|---|
| Early retirement programs | **$51** | $51 |
| Retirement allowance program | **16** | 12 |
| Other future employee benefits payable | **3** | 4 |
| NB Coal land reclamation | **2** | 2 |
| NB Coal environmental liability | **9** | 9 |
| | **81** | 78 |
| Less: Amounts due within one year | **(6)** | (7) |
| **Deferred liabilities – other** | **$75** | $71 |

### Early Retirement Liability

The Corporation has an early retirement program as described in Note 4(i). The latest actuarial calculation to estimate the liability was completed as at April 1, 2005.

The discount rate used to determine the early retirement liability was 5.25 per cent as compared to 5.25 per cent in 2006.

The costs recognized for the period were

| | 2007 | 2006 |
|---|---|---|
| Current service cost | **$1** | $1 |
| Interest on early retirement liability | **3** | 3 |
| **Costs recognized for the year** | **$4** | $4 |

The status of the obligation of the Corporation as at March 31, 2007 was as follows

| | 2007 | 2006 |
|---|---|---|
| Accrued benefit obligation | **$54** | $47 |
| Unamortized losses | **(6)** | (2) |
| Lump sum payable | **3** | 6 |
| **Early retirement liability** | **$51** | $51 |

The cumulative amount expensed in excess of amounts paid out under the early retirement program is recorded as a deferred liability.

### Retirement Allowance Liability

The Corporation has a retirement allowance program as described in Note 4(h). The latest actuarial calculation to estimate the liability was completed as at April 1, 2005.

Management's significant assumptions include the following

- 5.25 per cent discount rate used to determine the retirement allowance liability, compared to 5.25 per cent in 2006
- 2.5 per cent salary increases, compared to 2.5 per cent in 2006

The costs recognized for the period were

| | 2007 | 2006 |
|---|---|---|
| Current service cost | **$2** | $2 |
| Interest on retirement allowance liability | **3** | 3 |
| **Costs recognized for the year** | **$5** | $5 |

The status of the obligation of the Corporation as at March 31, 2007 was as follows

| | 2007 | 2006 |
|---|---|---|
| Accrued benefit obligation | **$35** | $34 |
| Unamortized losses | **(19)** | (22) |
| **Retirement allowance liability** | **$16** | $12 |

The cumulative amount expensed in excess of amounts paid out under the retirement allowance program is recorded as a deferred liability.

### NB Coal Environmental Liability

The Corporation and its subsidiary NB Coal have a long-term plan to treat acidic water drainage from an inactive mine. NB Coal has recognized an environmental liability equal to the net present value of the expected future costs.

| | 2007 | 2006 |
|---|---|---|
| Balance, beginning of year | **$9** | $9 |
| Add: Accretion expense | **1** | 1 |
| Less: Expenditures | **(1)** | (1) |
| **Balance, end of year** | **$9** | $9 |

The combined financial statements of NB Power Holding Corporation (the Corporation) have been prepared by management, who are responsible for the integrity, accuracy and fairness of the information. The accounting principles followed in the financial statements are generally accepted in Canada. The financial information presented throughout the annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and records properly maintained. These controls and procedures include

- system security and various financial controls
- quality standards in hiring and training of employees
- a code of conduct
- an organizational structure that provides a well-defined division of responsibilities
- performance accountability
- communication of policies and guidelines through the Corporation

Internal controls are reviewed and evaluated by audit programs, which are subject to scrutiny by external auditors.

The ultimate responsibility for the financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by the Audit Committee, which reviews the recommendations of internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the Audit Committee meets regularly with management and with external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that its responsibility has been properly discharged. The Audit Committee reviews the financial statements and recommends them for approval by the Board of Directors.

The Corporation's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the financial statements in accordance with auditing standards generally accepted in Canada, performing such tests and other procedures as they consider necessary to express the opinion in their Auditors' Report.

The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Corporation's financial reporting and the adequacy of internal control systems.

David D. Hay
President & CEO

Sharon MacFarlane
Vice President - Finance

August 28, 2007

The Honourable Herménégilde Chiasson
Lieutenant-Governor of New Brunswick
Fredericton, New Brunswick

Sir:

We have audited the combined balance sheet of NB Power Holding Corporation (the Corporation) as at March 31, 2007 and the combined statements of operations, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accountants
Saint John, NB

May 24, 2007 except for note 26
which is at August 3, 2007

## 21. Amounts Charged or Credited to Operations not Requiring a Current Cash Payment

| | 2007 | 2006 |
|---|---|---|
| Amortization and decommissioning | **$219** | $217 |
| Retirement expense less related funding | **4** | (1) |
| Pension expense less related funding | **3** | - |
| Future payments in lieu of income taxes | **(11)** | 5 |
| Other | **2** | 2 |
| **Amounts not requiring a current cash payment** | **$217** | $223 |

## 22. Related Party Transactions

Related parties of the Corporation include Electric Finance and the System Operator.

### Revenues and Expenses

The following related party revenues and expenses are included in the financial results for the year ended March 31, 2007

| | Electric Finance | | System Operator | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| **Revenues** | | | | |
| Transmission revenue | **$-** | $- | **$78** | $77 |
| Miscellaneous revenue | **-** | - | **12** | 11 |
| **Expenses** | | | | |
| Transmission expense | **-** | - | **85** | 86 |
| Other | **-** | - | **2** | 2 |
| Interest expense | **198** | 197 | **-** | - |
| Debt portfolio management fee | **20** | 20 | **-** | - |
| Special payments in lieu of provincial capital taxes | **11** | 11 | **-** | - |
| Special payments in lieu of income taxes* | **20** | 55 | **-** | - |

*Excluding the future payments in lieu of income taxes provision

### Receivables and Payables

The following related party receivable and payable balances existed as at March 31, 2007

| | Electric Finance | | System Operator | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Accounts receivable | **$-** | $8 | **$9** | $10 |
| Accounts payable | **4** | 37 | **10** | 10 |
| Accounts interest payable | **54** | 59 | **-** | - |

The amounts included in accounts receivable and accounts payable for related parties are subject to the normal payment terms extended to unrelated parties.

### Dividends

During the year the Corporation declared $10 million in dividends, as compared to $12 million in 2006, payable to Electric Finance.

### Debt and Guarantees

The Corporation has long-term debt payable to Electric Finance (Note 17 and 18) as at March 31, 2007. Electric Finance has provided certain guarantees for the Corporation to significant third-party creditors with respect to banking arrangements, trade payables and derivative financial instrument obligations.

## Combined Statement of Operations for the year ended March 31 (in millions)

| | 2007 | 2006 |
|---|---|---|
| **Revenues** (Notes 3 and 6) | | |
| Sales of power | | |
| In-province | **$1,146** | $1,056 |
| Out-of-province | **215** | 379 |
| Miscellaneous | **73** | 73 |
| Transmission | **78** | 77 |
| | **1,512** | 1,585 |
| **Expenses** | | |
| Fuel and purchased power | **560** | 512 |
| Transmission (Note 3) | **85** | 86 |
| Operations, maintenance and administration | **389** | 373 |
| Amortization and decommissioning (Note 7) | **220** | 217 |
| Taxes (Note 8) | **49** | 47 |
| | **1,303** | 1,235 |
| Earnings before finance charges and special payments in lieu of income taxes | **209** | 350 |
| Finance charges (Note 9) | **180** | 199 |
| Earnings before special payments in lieu of income taxes | **29** | 151 |
| Special payments in lieu of income taxes (Note 10) | **8** | 55 |
| **Net earnings** | **$21** | $96 |

## Combined Statement of Deficit for the year ended March 31 (in millions)

| | 2007 | 2006 |
|---|---|---|
| Deficit, beginning of year | **$(107)** | $(191) |
| Net earnings for the year | **21** | 96 |
| Dividends declared (Note 11) | **(10)** | (12) |
| **Deficit, end of year** | **$(96)** | $(107) |

## 23. FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

The fair value of financial instruments have been estimated by reference to quoted market prices or from valuations supplied by counterparties for actual or similar instruments at the balance sheet date, unless otherwise noted.

### Fuel and Purchased Power Contracts

Under the fuel and purchased power contracts, the Corporation exchanges monthly payments based on the differential between a fixed price and a monthly cumulative floating price on the associated foreign exchange, fuel, freight price or electricity index. The differential to be paid or received is reflected in the cost of fuel and purchased power.

At March 31, 2007, the Corporation had outstanding foreign exchange contracts maturing over the next 18 months as follows

| Foreign Exchange Contracts | 2007 | 2006 |
|---|---|---|
| Net commitment to purchase ($US in millions) | **$493** | $370 |
| Weighted average exchange rate ($CAD / $US) | **1.1309** | 1.1946 |
| Fair value asset (liability) (in millions) | **$7** | $(13) |

At March 31, 2007, the Corporation had outstanding heavy fuel oil contracts maturing over the next 18 months as follows

| Heavy Fuel Oil Contracts | 2007 | 2006 |
|---|---|---|
| Notional amount (in millions of barrels) | **4.9** | 5.2 |
| Weighted average fixed price (in $US per barrel) | **$51.48** | $40.96 |
| Fair value asset (liability) (in millions) | **$(18)** | $51 |

At March 31, 2007, the Corporation had outstanding natural gas contracts maturing over the next 18 months as follows

| Natural Gas Contracts | 2007 | 2006 |
|---|---|---|
| Notional amount (in millions of btu) | **12.9** | 12.9 |
| Weighted average fixed price (in $US per btu) | **$11.74** | $10.14 |
| Fair value asset (liability) (in millions) | **$(17)** | $13 |

At March 31, 2007, the Corporation had outstanding forward freight delivery contracts maturing over the next 18 months as follows

| Freight Contracts | 2007 | 2006 |
|---|---|---|
| Notional amount (in barrels) | **6,093** | N/A |
| Weighted average fixed price (in $US per barrel) | **$3.47** | N/A |
| Fair value asset (in millions) | **$7** | N/A |

At March 31, 2007, the Corporation had outstanding electricity contracts maturing over the next six months as follows

| Electricity Contracts | 2007 | 2006 |
|---|---|---|
| Notional amount (in millions of MWh) | **0.3** | 0.3 |
| Weighted average fixed price (in $US per MWh) | **$69.71** | $79.33 |
| Fair value asset (in millions) | **$1** | $3 |

### Interest Rates

Under the interest rate contracts, the Corporation exchanges monthly payments based on the differential between a fixed price and a monthly cumulative floating price for the associated interest rate. The differential to be paid or received is deferred and recognized over the life of the hedged debt as an adjustment to finance charges.

As of March 31, 2007, the Corporation had outstanding interest rate hedges maturing over the next 24 months as follows

| Interest Rates Contracts | 2007 | 2006 |
|---|---|---|
| Notional amount (in millions) | **$360** | N/A |
| Fair value (in millions) | **$(6)** | N/A |

### Long-term Debt

| Long-term Debt | 2007 | 2006 |
|---|---|---|
| Book value (in millions) | **$3,214** | $2,887 |
| Fair value (in millions) | **$3,469** | $3,101 |

## Combined Balance Sheet as at March 31 (in millions)

| | 2007 | 2006 |
|---|---|---|
| **Current Assets** | | |
| Cash and short-term investments (Note 12) | **$30** | $21 |
| Accounts receivable (Note 22) | **227** | 208 |
| Materials, supplies and fuel | **148** | 151 |
| Prepaid expenses | **6** | 4 |
| | **411** | 384 |
| **Property, Plant and Equipment (Note 13)** | | |
| Land, buildings, plant and equipment, at cost | **6,805** | 6,501 |
| Less: accumulated amortization | **3,400** | 3,221 |
| | **3,405** | 3,280 |
| **Long-Term Assets** | | |
| Nuclear decommissioning and used fuel management funds (Note 14) | **241** | 229 |
| Other investments (Note 15) | **6** | 6 |
| | **247** | 235 |
| **Other Assets** | | |
| Future special payments in lieu of income taxes (Note 10) | **11** | - |
| Deferred debt costs, less amounts amortized | **10** | - |
| Deferred pension benefit (Note 16) | **67** | 70 |
| | **88** | 70 |
| **Total Assets** | **$4,151** | $3,969 |

On Behalf of New Brunswick Power Holding Corporation

Norman M. Betts
Chairman (Interim)

David D. Hay
President & Chief Executive Officer

### Nuclear Decommissioning and Used Fuel Management Funds

| Nuclear Decommissioning and Used Fuel Management Funds | 2007 | 2006 |
|---|---|---|
| Book value (in millions) | **$241** | $229 |
| Fair value (in millions) | **$267** | $252 |

### Fair Value of Other Financial Assets and Liabilities

The fair values of other financial assets and liabilities are not materially different from their carrying values.

### Credit Risk

Credit risk arises from the potential that a counter-party will fail to perform its obligations. The Corporation conducts a thorough assessment of debtors prior to granting credit and actively monitors the financial health of its debtors on an on-going basis. The maximum credit risk exposure is deemed to be the sum of accounts receivable net of applicable reserves and the total unrealized gains on other financial instruments exposed to credit risk. Accounts receivable net of applicable reserves is $227 million, as compared to $208 million in 2006. The total unrealized gains on other financial instruments exposed to credit risk is $8 million, as compared to $67 million in 2006.

## 24. COMMITMENTS, CONTINGENCIES AND GUARANTEES

### Belledune Wharf

The Corporation has entered into an operating lease expiring in 2013 with a 20-year renewal option for the port facility at Belledune. This lease provides for annual charges of approximately $5 million.

### Courtenay Bay Generating Station

The Corporation has entered into a lease agreement for site facilities expiring in 2021 with a five-year option to extend. The tenant has repowered an existing 100 MW unit to a 280 MW combined cycle natural gas unit, which began commercial operation effective September 2001.

The Corporation also entered into a related power purchase and transmission access agreement expiring in 2021 with a five-year option to extend with the same third party. The Corporation will purchase all the electrical energy produced by the repowered 280 MW combined cycle natural gas unit during the winter period, November 1 to March 31, and from time-to-time some or all of the electrical energy produced during the summer period.

The Corporation has also entered into an agreement expiring in 2015 for firm natural gas transportation service to the repowered Courtenay Bay Generating Station. The cost of transportation will be recovered from the tenant referred to in the lease of the Station.

### Power Purchase Agreements

The Corporation has a number of power purchase agreements with third parties

- a 20-year power purchase agreement to 2024 to purchase all the capacity and electrical energy produced by a 90 MW co-generation facility that began production in December 2004
- an outstanding power purchase agreement to 2027 for 38.5 MW of capacity and energy from a co-generation facility
- a 25-year contract beginning in 2008 to 2033 to purchase all the electrical energy of a 75 MW wind generation facility to be constructed by a third party
- a 20-year contract beginning in 2008 to 2030, with a five-year renewal option, to purchase up to 21 MW of the electrical energy of a wind generation facility to be constructed by a third party
- the purchase of capacity and approximately 500 GWh of energy for the period December 2008 to March 2009, as awarded on March 2, 2007

### Orimulsion® Fuel Supply

The Corporation has an agreement with Bitor America Corporation to purchase Orimulsion® fuel for Dalhousie Generating Station. Bitor America Corporation notified the Corporation of its intention to provide alternate fuel under this agreement and began delivering the substitute fuel in June 2006. The Corporation has reserved all of its rights under the agreement.

The Corporation also entered into a contract with Bitumenes Orinoco, S.A. (Bitor) a wholly-owned subsidiary of Petroleos de Venezuela, S.A. (PDVSA) for the purchase of Orimulsion® fuel for the Coleson Cove Generating Station for a 20-year term, beginning with the date of first delivery. Bitor has breached the terms of the contract and on September 1, 2005, the Corporation filed a Notice of Arbitration and Statement of Claim with the American Arbitration Association in New York against Bitor and PDVSA. Bitor and PDVSA brought proceedings in New York state court to stay the arbitration, which the Corporation removed to the United States District Court in Manhattan, thereafter filing a cross-petition to compel Bitor and PDVSA to arbitrate the contract claims. The matter continues before the courts in New York. Also on September 1, 2005, the Corporation filed in the New Brunswick Courts a Notice of Action with Settlement of Claim Attached against Bitor, PDVSA and the State of Venezuela. The Corporation agreed to stay this action (except in relation to completing service of process) pending the outcome of the proceedings before the United States District Court (see note 26 subsequent event).

## Combined Balance Sheet as at March 31 (in millions)

| | 2007 | 2006 |
|---|---|---|
| **Current Liabilities** | | |
| Short-term indebtedness (Note 17) | **$-** | $243 |
| Accounts payable and accruals (Note 22) | **260** | 228 |
| Accrued interest (Note 22) | **54** | 59 |
| Current portion of long-term debt (Note 18) | **345** | 232 |
| | **659** | 762 |
| **Long-Term Debt (Note 18)** | | |
| Debentures | **2,869** | 2,655 |
| **Deferred Liabilities** | | |
| Plant decommissioning and used nuclear fuel management (Note 19) | **317** | 261 |
| Other (Note 20) | **75** | 71 |
| | **392** | 332 |
| **Shareholders' Equity** | | |
| Capital stock (Note 11) | **140** | 140 |
| Contributed surplus | **187** | 187 |
| Deficit | **(96)** | (107) |
| | **231** | 220 |
| **Total Liabilities & Shareholders' Equity** | **$4,151** | $3,969 |

### Coleson Cove Generating Station Refuelling Project

The Corporation is proceeding with a unit demonstration of burning a petroleum coke and heavy fuel oil blend at Coleson Cove Generating Station. Capital expenditures to March 31, 2007 were $2 million. The budgeted capital cost of the unit demonstration is estimated to be $33 million. The work required to proceed with the unit demonstration is expected to be completed by December 2007. As at March 31, 2007, the Corporation had issued purchase orders for the supply of equipment and engineering services totalling approximately $11 million.

### Generating Station Purchase

In March 2007, the Board authorized the Corporation to enter into an agreement to purchase a generating station. The station has total output of 10.8 MW and generates approximately 50 GWh of energy annually. The transaction closing is expected to take place in the summer of 2007.

### Transmission Power Line

The Corporation is constructing a 345 kV transmission power line in New Brunswick, from Point Lepreau, New Brunswick to the border crossing near Woodland, Maine, United States. The total budgeted cost of the project is estimated to be $60 million. To ensure the financial viability of the project, the Corporation signed Commitment Agreements with load-serving entities in the Maritimes for the equivalent of long-term firm transmission reservations for 25 years.

The Corporation signed a construction commitment agreement with an American electric utility to have the line in service by December 31, 2007. Expenditures to March 31, 2007 were $49 million.

### Point Lepreau Generating Station Refurbishment Project

The Corporation will refurbish the Point Lepreau Generating Station replacing key components of the reactor and upgrading other major plant systems. This project is expected to extend the operating life of the facility to 2034.

The Corporation awarded fixed price contracts to a third-party corporation in August 2005 to manage the project and to complete retubing of the reactor. The value of the refurbishment and retube contracts is approximately $528 million. Total construction costs, excluding fuel and purchased power costs, are budgeted at approximately $1 billion.

The Station will shut down in April 2008 for completion of the retubing and refurbishment work. Project completion and start-up is expected by the fall of 2009. Expenditures to March 31, 2007 were $346 million.

### Point Lepreau Generating Station Turbine Up-rate Project

The Corporation will proceed with the replacement of three low pressure turbine rotors. The budget for the project is estimated to be $65 million. In September 2006, a third-party corporation was awarded the contract for the majority of this work. This project will be competed within the Point Lepreau Generating Station outage period.

### Transmission Reservations

For the purposes of delivering electricity to out-of-province markets, the Corporation has committed to long-term transmission reservations with the System Operator.

### Ancillary Services Contract

The Corporation has entered into two Ancillary Services contracts with the System Operator. The services provided are voltage support, automatic generation control, load following, operating reserve and black start capability. At the current time the Corporation's obligation is to supply 90 per cent of the ancillary services for the life of the heritage assets and to supply ancillary services for the remaining 10 per cent for a one-year period from November 2006 to October 2007.

## 25. Segmented Information

The Corporation is organized and operates under five reportable business segments.

### Genco

Genco is responsible for the operation and maintenance of the oil, hydro, coal, and diesel-powered generating stations.

### Nuclearco

Nuclearco is responsible for the operation and maintenance of the Point Lepreau Generating Station.

### Transco

Transco is responsible for operating and maintaining the transmission system.

### Disco

Disco is responsible for operating and maintaining the distribution system. Disco is designated as the standard service supplier for the Province of New Brunswick and is obligated to provide standard services to residential, commercial, wholesale and industrial customers located throughout the province.

### Holdco (Unconsolidated)

Holdco provides strategic direction, governance and support to the other business segments for communications, finance, human resources, legal and governance. It also provides shared services on a cost-recovery basis.

## Combined Statement of Cash Flows for the year ended March 31 (in millions)

| | 2007 | 2006 |
|---|---|---|
| **Operating Activities** | | |
| Net earnings for the year | **$21** | $96 |
| Amounts charged or credited to operations not requiring a current cash payment (Note 21) | **217** | 223 |
| | **238** | 319 |
| Nuclear decommissioning and used fuel management funds installments and earnings | **(13)** | (40) |
| Decommissioning expenditures | **(3)** | (5) |
| Deferred debt costs | **(10)** | - |
| Net change in non-cash working capital balances | **13** | (11) |
| | **225** | 263 |
| **Investing Activities** | | |
| Expenditure on property, plant and equipment, net of proceeds on disposal and customer contributions | **(287)** | (209) |
| **Financing Activities** | | |
| Debt retirements | **(233)** | (357) |
| Proceeds from issuance of long-term debt | **560** | 428 |
| Decrease in short-term indebtedness | **(243)** | (97) |
| Dividends paid | **(13)** | (11) |
| | **71** | (37) |
| Net cash inflow | **9** | 17 |
| Cash, beginning of year | **21** | 4 |
| **Cash, end of year** | **$30** | $21 |

**Significant Inter-company Agreements**

The Corporation has entered into a number of significant inter-company agreements.

Power Purchase Agreement – Disco and Nuclearco

Disco and Nuclearco entered into a power purchase agreement whereby Disco purchases 95 per cent of the Point Lepreau Generating Station's 635 MW capacity and the electricity produced. The agreement expires 25 years after the Station returns to service following refurbishment, with annual renewal options in favour of Disco thereafter.

Power Purchase Agreement – Disco and Colesonco

Disco and Colesonco entered into a 25-year tolling agreement whereby Disco purchases tolling capacity and related services to convert fuel to electricity. The agreement requires the sale of all energy generated at Coleson Cove Generating Station to Disco.

Power Purchase Agreement – Disco and Genco

Disco and Genco entered into a long-term power purchase agreement whereby Genco supplies capacity and energy to Disco. The agreement continues until all of Genco's heritage assets, including third-party power purchase agreements, are retired or expire, or Disco reduces its nominated capacity under the terms of the agreement to zero. The commitment at March 31, 2007 was 2,425 MW of base capacity and 1,258 MW of peaking capacity.

Under the agreement, Disco sells and Genco purchases all capacity and energy Disco receives under the Disco/Colesonco power purchase agreement. Genco is also responsible to procure and deliver fuel on behalf of Disco to Coleson Cove Generating Station.

## 1. Incorporation

### Incorporation

New Brunswick Power Corporation (NB Power) was established as a Crown Corporation of the Province of New Brunswick in 1920 by enactment of the *New Brunswick Electric Power Act*.

On October 1, 2004 the Province of New Brunswick proclaimed the *Electricity Act*, which resulted in the reorganization of NB Power and the restructuring of the electricity industry in New Brunswick. NB Power was continued as New Brunswick Power Holding Corporation (Holdco) with four new subsidiary operating companies that commenced operations on this date. The subsidiaries include

- New Brunswick Power Generation Corporation* (Genco)
- New Brunswick Power Nuclear Corporation (Nuclearco)
- New Brunswick Power Transmission Corporation (Transco)
- New Brunswick Power Distribution and Customer Service Corporation (Disco)

* including New Brunswick Power Coleson Cove Corporation (Colesonco) and NB Coal Limited (NB Coal), formed as subsidiaries of Genco upon restructuring

The *Electricity Act* also resulted in the establishment of the New Brunswick Electric Finance Corporation (Electric Finance), a Crown Corporation and agent of the Crown, whose purpose is to facilitate the conversion of NB Power's debt to appropriate levels in the subsidiary operating companies and to assume and reduce the remaining portion of NB Power's debt.

The *Electricity Act* also resulted in the establishment of the New Brunswick System Operator (System Operator), a not-for-profit body whose primary objective is to independently direct the operation of the electricity market and maintain the long-term adequacy and reliability of the electricity system.

## 2. Basis of Presentation

The accompanying combined financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a basis consistent with the preceding year. The combined financial statements include the accounts of Holdco and those of its subsidiaries listed above (collectively the Corporation).

## 3. Basis of Regulation

### Transco

The New Brunswick Energy and Utilities Board (EUB) regulates the Open Access Transmission Tariff (OATT). The OATT establishes non-discriminatory access to the transmission system for generators and customers inside and outside the province and generates revenues for the Corporation to operate and maintain the transmission system.

The System Operator has responsibility for the design and administration of the OATT. As such, Transco bills the System Operator for the majority of its revenue requirement, which the System Operator collects through the OATT from the various load and load-serving customers, including Genco, Nuclearco and Disco.

Transco's revenue requirement is based on its cost of service with an allowed rate of return of 9.5 per cent based on a deemed capital structure of 65 per cent debt and 35 per cent equity.

Regulatory assets or liabilities may arise as a result of the rate-setting process. Regulatory assets represent future revenues associated with certain costs incurred in current or prior periods that are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of revenue increases associated with amounts that are expected to be refunded to customers. As of March 31, 2007, Transco has a regulatory asset related to allowance for funds used during construction (AFUDC).

The EUB permits AFUDC to be capitalized monthly on capital construction projects based on the Corporation's weighted average cost of capital. AFUDC is included in the cost of property, plant and equipment for financial reporting purposes and is amortized over future periods as part of the cost of the related asset. Since AFUDC includes a cost-of-equity component as well as an interest component, it exceeds the amount that would be capitalized in similar circumstances in the absence of rate regulation.

It is expected that future amortization from property, plant and equipment containing AFUDC is recoverable through the OATT. However, the expected recovery or likelihood of recovery is affected by decisions of the EUB in determining Transco's revenue requirement.

**Disco**
Disco is regulated under a system whereby annual average rate increases greater than three per cent or the percentage change in the average Consumer Price Index, whichever is higher, require regulatory approval by the EUB.

Regulatory assets or liabilities may arise as a result of the rate-setting process. Regulatory assets represent future revenues associated with certain costs incurred in current or prior periods that are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of revenue increases associated with amounts that are expected to be refunded to customers.

## 4. Significant Accounting Policies

### A. Property, Plant and Equipment
The cost of additions to property, plant and equipment is the original cost of contracted services, direct labour and material, interest and allowance for funds used during construction, indirect charges for administration and other expenses related to capital projects, less credits for the value of power generated during commissioning and customer contributions.

Property, plant and equipment also includes the present value of asset retirement obligations related to the disposal of used nuclear fuel and decommissioning of the nuclear and thermal generating stations.

Interest during construction is capitalized monthly on capital projects based on the cost of long-term borrowings, except in Transco where allowance for funds used during construction is capitalized monthly on capital projects based on the weighted average cost of capital.

Contributions in aid of construction, which include amounts received from customers as well as research and development grants in respect of new facilities, are netted against the cost of related assets.

The cost of distribution system assets retired, net of dismantlement and salvage, is charged to accumulated amortization as deemed appropriate by the New Brunswick Board of Commissioners of Public Utilities.

Amortization is provided for all assets sufficient to amortize the cost of such assets less estimated salvage value over their estimated service lives. The estimated service lives of fixed assets are periodically reviewed and any changes are applied prospectively. All assets are amortized on a straight-line basis.

The main categories of property, plant and equipment are being amortized based on the following estimated service lives

| Assets | Years |
|---|---|
| Power generating stations | |
| Hydro generating facilities | 35 - 100 |
| Thermal generating stations | 25 - 35 |
| Nuclear generating station | 29 |
| Combustion turbine generating stations | 25 |
| Transmission system | 45 - 60 |
| Terminals and substations | 40 |
| Distribution system | 10 - 35 |
| Buildings | 40 - 50 |
| Communications and computer systems | 3 - 15 |
| Mining equipment | 20 - 35 |
| Motor vehicles | 4 - 10 |

The Corporation evaluates its property, plant and equipment for impairment whenever conditions indicate that estimated undiscounted future net cash flows may be less than the net carrying amount of assets. If the undiscounted expected future cash flows are less than the carrying amount, an impairment loss will be recognized equal to the amount by which the carrying amount exceeds the fair value.

### B. Cash and Short-term Investments
Cash and short-term investments, which are stated at cost, consist of balances with banks and investments in money market instruments.

### C. Materials, Supplies and Fuel
Inventories of materials, supplies and fuel other than nuclear fuel are valued at average cost. Nuclear fuel is valued at cost using the first-in, first-out method.

### D. Foreign Exchange Transactions
Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at rates of exchange prevailing at the balance sheet date except where such items have been hedged by the acquisition of a forward exchange contract, in which case the rate established by the terms of the contract is used in the translation. Exchange gains and losses resulting from foreign currency translation are reflected in earnings.

### E. Long-term Debt
Long-term debt is recorded on the balance sheet at cost. The estimated fair value of long-term debt is disclosed in the notes to the financial statements using market values or estimates of market values based on debt with similar terms and maturities. The estimated fair value does not include costs that would be incurred to exchange or settle the debt.

## Financial Overview – 2007

| | Genco | Nuclearco | Transco | Disco | Holdco (unconsolidated) | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Sales of power | | | | | | | |
| In-province | $(6) | $- | $- | $1,152 | $- | $- | $1,146 |
| Out-of-province | 205 | 10 | - | - | - | - | 215 |
| Inter-company | 754 | 222 | - | 3 | - | (979) | - |
| Miscellaneous | 29 | 1 | 7 | 36 | - | - | 73 |
| Transmission | - | - | 78 | - | - | - | 78 |
| Other inter-company | 3 | (1) | 16 | 6 | 80 | (104) | - |
| **Total revenue** | 985 | 232 | 101 | 1,197 | 80 | (1,083) | 1,512 |
| Fuel and purchased power | 552 | 13 | - | 967 | - | (972) | 560 |
| Transmission | 30 | 2 | - | 62 | - | (9) | 85 |
| Operations, maintenance and administration | 120 | 146 | 41 | 107 | 59 | (84) | 389 |
| Amortization and decommissioning | 104 | 54 | 20 | 40 | 2 | - | 220 |
| Taxes | 20 | 8 | 8 | 13 | - | - | 49 |
| Finance charges | 126 | 7 | 9 | 37 | 19 | (18) | 180 |
| Special payments in lieu of income taxes | 10 | - | 8 | (10) | - | - | 8 |
| **Total expenses** | 962 | 230 | 86 | 1,216 | 80 | (1,083) | 1,491 |
| **Net earnings (loss)** | $23 | $2 | $15 | $(19) | $- | $- | $21 |
| **Total assets** | $2,113 | $1,048 | $370 | $726 | $135 | $(241) | $4,151 |
| **Capital expenditures** | $38 | $167 | $48 | $32 | $2 | $- | $287 |

**Financial Overview – 2006**

| | Genco | Nuclearco | Transco | Disco | Holdco (unconsolidated) | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Sales of power | | | | | | | |
| In-province | $(7) | $2 | $- | $1,061 | $- | $- | $1,056 |
| Out-of-province | 369 | 10 | - | - | - | - | 379 |
| Inter-company | 595 | 216 | - | 3 | - | (814) | - |
| Miscellaneous | 30 | - | 9 | 34 | - | - | 73 |
| Transmission | - | - | 77 | - | - | - | 77 |
| Other inter-company | 1 | 1 | 15 | 5 | 77 | (99) | - |
| **Total revenue** | 988 | 229 | 101 | 1,103 | 77 | (913) | 1,585 |
| Fuel and purchased power | 503 | 13 | - | 806 | - | (810) | 512 |
| Transmission | 35 | 2 | - | 58 | - | (9) | 86 |
| Operations, maintenance and administration | 113 | 136 | 40 | 105 | 60 | (81) | 373 |
| Amortization and decommissioning | 101 | 52 | 19 | 42 | 3 | - | 217 |
| Taxes | 19 | 7 | 8 | 13 | - | - | 47 |
| Finance charges | 137 | 10 | 11 | 40 | 14 | (13) | 199 |
| Special payments in lieu of income taxes | 29 | 4 | 8 | 14 | - | - | 55 |
| **Total expenses** | 937 | 224 | 86 | 1,078 | 77 | (913) | 1,489 |
| **Net earnings (loss)** | $51 | $5 | $15 | $25 | $- | $- | $96 |
| **Total assets** | $2,196 | $755 | $365 | $747 | $273 | $(367) | $3,969 |
| **Capital expenditures** | $41 | $118 | $14 | $36 | $- | $- | $209 |

## 26. Subsequent Event

On August 3, 2007 the Corporation settled the legal action against Petroleos de Venezuela, S. A. (PDVSA) and others (see note 24 – Orimulsion®, fuel supply). The settlement includes a cash portion of $115 million and an in-kind portion representing a commitment to deliver fuel. The in-kind portion of the settlement will be realized over time. The Corporation is in the process of determining the precise impact the settlement will have on its current and future financial statements.

## F. Asset Retirement Obligations

### Nuclear and Thermal Generating Stations

In order to provide for the estimated future costs of permanently disposing of used nuclear fuel and decommissioning the nuclear and thermal generating stations to return the sites to a state of unrestricted use, the Corporation recognizes these liabilities taking into account the time value of money.

The following costs have been recognized as a liability as at March 31, 2007

- the estimated present value of the fixed cost portion of used nuclear fuel management activities that are required regardless of the volume of fuel consumed and the estimated present value of the variable cost portion of used nuclear fuel management activities to take into account actual fuel volumes incurred up to March 31, 2007
- the estimated present value of the costs of decommissioning the nuclear and thermal generating stations at the end of their useful lives

The liability for used nuclear fuel management is increased for nuclear fuel bundles used each year with the corresponding amounts charged to operations through fuel expense.

The liabilities for used nuclear fuel management and nuclear and thermal plant decommissioning are increased for the passage of time by calculating accretion on the liabilities. The accretion expense is calculated using the Corporation's credit-adjusted risk-free rate and is included with amortization expense.

The calculations of the anticipated future costs are based on detailed studies that take into account various assumptions regarding the method and timing of dismantling the nuclear and thermal generating stations, the cost of transporting nuclear material to permanent disposal facilities and estimates of inflation rates in the future.

Expenditures incurred on a current basis relating to used nuclear fuel management and nuclear and thermal plant decommissioning are charged against the deferred liability accounts.

In view of potential developments in the decommissioning and used nuclear fuel management technologies and the various assumptions and estimates inherent in the calculations, the Corporation reviews such calculations periodically.

In accordance with the *Nuclear Fuel Waste Act*, which came into force in November 2002, the Nuclear Waste Management Organization was formed to prepare and review alternatives and provide recommendations for long-term management of used nuclear fuel. The Nuclear Waste Management Organization's recommendations were submitted to the federal government in November 2005. The federal government will determine the strategy for dealing with the long-term management of used nuclear fuel based on submitted alternatives. The strategy determined by the federal government could significantly change management's estimate of the used nuclear fuel management liability.

### Hydro Generating Stations

The Corporation currently has no intention and is not legally obligated to decommission its hydro generating stations. With either maintenance efforts or rebuilding, the assets are expected to be used for the foreseeable future. Therefore, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time. If at some future date it becomes possible to estimate a fair value cost of removing assets that the Corporation is legally required to remove, an asset retirement obligation will be recognized at that time.

### Transmission and Distribution Assets

The Corporation expects to use the majority of its transmission and distribution assets for an indefinite period of time. Therefore, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligation cannot be made at this time. If at some future date it becomes possible to estimate the fair value cost of removing assets that the Corporation is legally required to remove, an asset retirement obligation will be recognized at that time.



## G. Pension Plans

Corporation employees, other than NB Coal employees, are members of the Province of New Brunswick Public Service Superannuation Plan. This multi-employer, defined benefit plan provides pensions based on length of service and the average of the highest five consecutive years of earnings. Pension benefits paid are escalated each year based on the Consumer Price Index to a maximum of five or six per cent depending on retirement date. The Corporation and its employees make contributions to the plan as prescribed in the *Public Service Superannuation Act* and its regulations. NB Coal maintains a private defined benefit pension plan for its employees.

Under both plans, future salary levels affect the amount of employee future benefits, and therefore the projected benefit method pro-rated on service has been used to determine the accrued benefit obligation. The expected return on plan assets is based on the fair value of plan assets. Actuarial gains or losses in excess of 10 per cent of the greater of the accrued benefit obligation and the fair value of the plan assets at the beginning of the year are amortized over the expected average remaining service life of the employee group. The transitional asset (fair market value of the plan assets less the accrued benefit obligation as determined at April 1, 2000) is also amortized over the average remaining service life of the employee group.

| Statement of Generation (millions of kWh) | 2006/07 | 2005/06 | 2004/05 | 2003/04 | 2002/03 |
|---|---|---|---|---|---|
| Hydro | **3,124** | 3,802 | 2,829 | 3,191 | 2,057 |
| Thermal | **8,125** | 10,001 | 11,096 | 10,838 | 11,510 |
| Nuclear | **4,696** | 4,695 | 4,572 | 5,120 | 4,284 |
| Combustion turbine | **1** | 9 | 17 | 50 | 57 |
| Purchases | **3,092** | 1,898 | 1,848 | 1,371 | 1,752 |
| **Gross generation and purchases** | **19,038** | 20,405 | 20,362 | 20,570 | 19,660 |
| Station service | **858** | 961 | 1,006 | 1,012 | 1,044 |
| **Net generation and purchases** | **18,180** | 19,444 | 19,356 | 19,558 | 18,616 |
| Losses - transformer and transmission | **673** | 504 | 602 | 614 | 648[1] |
| **Total energy available for distribution** | **17,507** | 18,940 | 18,754 | 18,944 | 17,968 |

| Statement of Sales (millions of kWh) | 2006/07 | 2005/06 | 2004/05 | 2003/04 | 2002/03 |
|---|---|---|---|---|---|
| Wholesale | **1,176** | 1,174 | 1,222 | 1,227 | 1,218 |
| Industrial | **5,976** | 5,577 | 6,039 | 6,170 | 6,156 |
| General service | **2,291** | 2,264 | 2,280 | 2,257 | 2,218 |
| Residential | **4,824** | 4,797 | 4,990 | 4,920 | 4,874 |
| Street lights | **75** | 75 | 75 | 74 | 74 |
| **Total in-province sales** | **14,342** | 13,887 | 14,606 | 14,648 | 14,540 |
| Interconnections | **2,815** | 4,682 | 3,813 | 3,922 | 3,069 |
| **Total sales** | **17,157** | 18,569 | 18,419 | 18,570 | 17,609 |
| Distribution losses | **350** | 371 | 335 | 374 | 359 |
| **Total energy distributed and sold** | **17,507** | 18,940 | 18,754 | 18,944 | 17,968 |

| Statement of Revenue (in millions) | 2006/07 | 2005/06 | 2004/05 | 2003/04 | 2002/03 |
|---|---|---|---|---|---|
| Wholesale | **$87** | $82 | $81 | $80 | $77 |
| Industrial | **350** | 310 | 319 | 306 | 316 |
| General service | **225** | 213 | 203 | 196 | 190 |
| Residential | **470** | 436 | 427 | 409 | 393 |
| Street lights and energy imbalance | **14** | 15 | 19 | 18 | 17 |
| **Total in-province sales** | **1,146** | 1,056 | 1,049 | 1,009 | 993 |
| Interconnections | **215** | 379 | 251 | 246 | 227 |
| **Sales of power** | **1,361** | 1,435 | 1,300 | 1,255 | 1,220 |
| Miscellaneous | **73** | 73 | 62 | 56 | 53 |
| Transmission revenue | **78** | 77 | 41 | - | - |
| **Total revenue** | **$1,512** | $1,585 | $ 1,403 | $1,311 | $1,273 |

[1]Includes adjustment of 95 GWh primarily related to previous years

### H. Retirement Allowance

The Corporation has a retirement allowance program for employees that provides a lump-sum payment equal to one week of pay for each full year of employment to a maximum of 26 weeks of pay. Actuarial calculations are prepared to determine the amount of the Corporation's obligations for retirement allowances. The actuarial method used incorporates management's best estimate assumptions to determine the present value of the accrued retirement allowance obligation based on projections of salaries and wages to expected retirement dates. The actuarial present value of accrued retirement allowance obligations for past service is amortized on a straight-line basis over the expected average remaining service life of the employee group.

### I. Early Retirement Programs

The present value of the estimated future costs of early retirement programs is charged to earnings in the year the program is accepted by employees, irrespective of when payments are actually made.



### J. Revenues

The Corporation recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured. Billings to residential, general service and most industrial customers are rendered monthly on a cyclical basis. Industrial transmission and out-of-province customers are billed at the end of each month. Revenue in respect of items not billed at the end of a fiscal period is estimated and accrued.

### K. Derivative Financial Instruments

In accordance with its forward purchasing policies and objectives, the Corporation enters into derivative financial instruments to manage underlying exposures. The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its hedging objectives and strategy underlying various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific forecasted transactions.

Hedge accounting, which allows deferral of gains and losses until settlement, is applied when the derivative instrument is designated as a hedge and the derivative is expected to be effective throughout the life of the hedged item. Effectiveness is achieved when changes in the cash flows or fair value of the derivative instrument substantially offset changes in the cash flows or fair value of the hedged item. The Corporation assesses both at inception and on an ongoing basis where the derivatives used in hedging transactions are effective.

Effective derivatives that meet hedge criteria are not recorded on the balance sheet and any gains or losses on these instruments are deferred and only recognized at the settlement date. Derivative instruments not meeting hedge criteria are accounted for on the balance sheet at fair value and subsequent changes in fair value are recorded in earnings.

If a derivative instrument ceases to exist and is not replaced, the termination gain or loss is deferred and recognized when the hedged item is settled. If a hedged item ceases to exist or is no longer probable of occurring, any previously deferred gains or losses associated with a derivative instrument are recognized in earnings. If a hedging relationship is terminated or ceases to be effective, any previously deferred gains or losses are carried forward and recognized in earnings in the same period as the hedged item and any subsequent gains or losses on the fair value of the instrument are recognized in earnings.

The Corporation currently uses derivative financial instruments to manage the following risks:

- foreign currency exchange rates
- heavy fuel oil and natural gas prices
- export electricity prices
- freight prices
- interest rates

#### Foreign Currency Exchange Rates

The Corporation enters into Canadian dollar – US dollar forward purchases to hedge exchange risk related to forecasted US dollar purchases. Gains or losses on forward contracts hedging forecasted US dollar purchases are deferred and recognized at the settlement date as part of the underlying item. In the event that a forward contract is terminated, the realized gain or loss would also be deferred and recognized in earnings at the settlement date of the related underlying item.

#### Heavy Fuel Oil and Natural Gas Prices

The Corporation enters into heavy fuel oil and natural gas swaps to hedge the anticipated exposure related to changes in the cost of heavy fuel oil in the operations of its generating stations and on purchase contracts largely based on natural gas prices. Gains or losses on these swaps are recognized at the settlement dates as an adjustment to fuel and purchased power expense.

#### Export Electricity Prices

The Corporation periodically enters into electricity swaps to hedge the anticipated exposure related to changes in electricity prices on export sales. Gains or losses on these swaps are recognized at the settlement dates as an adjustment to out-of-province power sales.

#### Freight Prices

The Corporation enters into contracts to hedge an index price for which a portion of the fuel freight costs are based. Gains or losses on these contracts are recognized at the settlement dates as an adjustment to fuel and purchased power expense.

#### Interest Rates

The Corporation occasionally enters into contracts to hedge the interest rate risk associated with expected future borrowings. Gains or losses on these contracts are recognized over the life of the borrowing as an adjustment to finance charges.

| Statement of In-province Generation[2] (millions of kWh) | 2006/07 | 2005/06 | 2004/05 | 2003/04 | 2002/03 |
|---|---|---|---|---|---|
| Hydro | **2,891** | 3,313 | 2,713 | 3,173 | 2,039 |
| Coal and petroleum coke | **2,756** | 2,387 | 3,392 | 3,388 | 3,677 |
| Heavy fuel oil | **2,632** | 1,527 | 2,029 | 2,150 | 3,196 |
| Orimulsion® | **383** | 1,388 | 1,643 | 1,315 | 1,454 |
| Nuclear | **4,142** | 4,146 | 4,031 | 4,345 | 3,784 |
| Combustion turbine | **-** | - | 3 | 17 | 18 |
| Purchases | **2,529** | 1,817 | 1,638 | 1,249 | 1,379 |
| **Net generation and purchases** | **15,333** | 14,578 | 15,449 | 15,637 | 15,547 |
| Losses - transformer and transmission | **673** | 504 | 602 | 614 | 648[3] |
| **Total energy available for distribution** | **14,660** | 14,074 | 14,847 | 15,023 | 14,899 |

| Peak Demand and Capacity (MW) | 2006/07 | 2005/06 | 2004/05 | 2003/04 | 2002/03 |
|---|---|---|---|---|---|
| System net generating capacity | **3,297** | 3,297 | 3,948 | 3,770 | 3,770 |
| Firm capacity purchases | **402** | 402 | 402 | 506 | 505 |
| **Total available resources** | **3,699** | 3,699 | 4,350 | 4,276 | 4,275 |
| In-province system net peak demand | **3,160** | 2,799 | 3,146 | 3,340 | 3,089 |
| Firm exports | **356** | 355 | 399 | 366 | 590 |
| Operating reserve | **512** | 561 | 662 | 657 | 665 |
| **Total requirement** | **4,028** | 3,715 | 4,207 | 4,363 | 4,344 |

| Operating Statistics | 2006/07 | 2005/06 | 2004/05 | 2003/04 | 2002/03 |
|---|---|---|---|---|---|
| Transmission lines - km | **6,703** | 6,703 | 6,708 | 6,689 | 6,696 |
| Distribution lines - km | **20,030** | 20,045 | 19,982 | 19,803 | 19,704 |
| Residential customers | **303,177** | 300,134 | 296,879 | 293,545 | 290,310 |
| Industrial customers | **1,920** | 1,843 | 1,822 | 1,810 | 1,842 |
| General service customers | **24,665** | 24,426 | 24,179 | 24,024 | 23,963 |
| Non-metered customers | **2,345** | 2,368 | 2,378 | 2,404 | 2,620 |
| Direct customers | **332,107** | 328,771 | 325,258 | 321,783 | 318,735 |
| Indirect customers | **41,100** | 41,889 | 41,672 | 41,656 | 41,502 |
| **Total customers** | **373,207** | 370,660 | 366,930 | 363,439 | 360,237 |
| | | | | | |
| Positions - regular | **2,428** | 2,380 | 2,651 | 2,633 | 2,662 |
| Positions - temporary | **91** | 85 | 83 | 89 | 116 |
| Positions - NB Coal Limited | **69** | 69 | 70 | 70 | 70 |
| **Total positions[4]** | **2,588** | 2,534 | 2,804 | 2,792 | 2,848 |

[2] For the period post restructuring (October 1, 2004), the table only reflects energy supplied by the NB Power Group and does not reflect energy purchases made by the System Operator for in-province supply

[3] Includes adjustment of 95 GWh primarily related to previous years; this adjustment also increased station service for the year

[4] Refers to positions based on the Plan of Establishment. Previous years' annual reports have reported number of employees.

### L. Special Payments In Lieu of Taxes

The Corporation is required to make special payments in lieu of taxes to Electric Finance. Total special payments in lieu of taxes consist of

- an income tax component based on accounting net earnings multiplied by a rate of 35.12 per cent
- a capital tax component based upon the large corporation tax rules contained in the *New Brunswick Income Tax Act*

The Corporation also recognizes the future special payments in lieu of income taxes benefit of current losses when it is more likely than not that sufficient earnings will be generated in future periods to offset losses previously incurred. No other provisions are made for future special payments in lieu of income taxes as a result of any temporary differences since the tax basis of assets and liabilities and their carrying amounts for accounting purposes are considered to be the same for the purposes of the calculation.

### M. Consolidation of Variable Interest Entities

The Corporation has several variable interests in the form of power purchase contracts with third-party corporations. The Corporation has not consolidated the financial results of these third-party entities. For all of these contracts except one, it was determined that there is an insignificant amount of variability being absorbed by the Corporation as a result of these contracts and therefore consolidation is inappropriate.

There is one purchase power contract to purchase all the capacity and electrical energy produced by a 90 MW co-generation facility that began production in December 2004. Purchases under this contract were $56 million for the year ended March 31, 2007 as compared to $67 million for the year ended March 31, 2006. Pursuant to the scope exemption contained in Accounting Guidelines AcG-15 paragraph 4(g), the Corporation has made exhaustive efforts to obtain information in order to make an assessment of whether or not the third-party corporation is a variable interest entity. The Corporation has not been able to obtain this information and therefore has not been able to determine if the third-party corporation is a variable interest entity. As a result, the Corporation has not consolidated the financial results of this third-party entity.

### N. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates. See

- Note 16 regarding the estimate of the deferred pension benefit
- Note 19 regarding the estimate of the plant decommissioning and used nuclear fuel management liabilities
- Note 20 regarding the estimate of other deferred liabilities

## 5. Future Accounting Changes

In 2005, the Canadian Institute of Chartered Accountants (CICA) issued a number of standards that dealt with the recognition, presentation and disclosure of financial instruments. The following standards must be adopted by the Corporation for the fiscal period beginning April 1, 2007 at the latest

a) CICA Handbook Section 1530 – "Comprehensive Income" establishes new standards whereby enterprises will include a statement of comprehensive income while the cumulative amount, accumulated other comprehensive income, will be presented as a new category of shareholders' equity in the balance sheet. Section 1530 defines other comprehensive income to include revenues, expenses and losses that are recognized in comprehensive income, but excluded from net earnings

b) CICA Handbook Section 3855 – "Financial Instruments – Recognition and Measurement" establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives

c) CICA Handbook Section 3865 – "Hedges" establishes standards for when and how hedge accounting may be applied

The Corporation has considered all financial instruments, potential forward contract relationships and the presentation of comprehensive income, and is prepared to adopt the standards on April 1, 2007.

## 6. Revenues

Total revenues in 2007 include $66 million of sales to customers in the United States, as compared to $120 million in 2006.

## 7. Amortization and Decommissioning

| | 2007 | 2006 |
|---|---|---|
| Amortization | **$202** | $200 |
| Decommissioning | **18** | 17 |
| **Amortization and decommissioning** | **$220** | $217 |

## 8. Taxes

| | 2007 | 2006 |
|---|---|---|
| Property taxes | **$21** | $20 |
| Utility and right of way taxes | **17** | 16 |
| Special payments in lieu of provincial capital taxes | **11** | 11 |
| **Taxes** | **$49** | $47 |

| **Income Statement Summary** (in millions) | **2006/07** | 2005/06 | 2004/05 | 2003/04 | 2002/03 |
|---|---|---|---|---|---|
| In-province revenue | **$1,146** | $1,056 | $1,049 | $1,009 | $993 |
| Out-of-province revenue | **215** | 379 | 251 | 246 | 227 |
| Miscellaneous | **73** | 73 | 62 | 56 | 53 |
| Transmission revenue | **78** | 77 | 41 | - | - |
| Total fuel and purchased power | **560** | 512 | 497 | 467 | 528 |
| Transmission expenses | **85** | 86 | 46 | - | - |
| Operations, maintenance and administration | **389** | 373 | 384 | 355 | 334 |
| Amortization and decommissioning | **220** | 217 | 219 | 213 | 216 |
| Taxes, other than special payments in lieu of income taxes | **49** | 47 | 41 | 33 | 30 |
| Write-off of fuel handling system costs | **-** | - | - | 44 | - |
| Finance charges | **180** | 199 | 202 | 217 | 242 |
| Special payments in lieu of income taxes | **8** | 55 | 5 | - | - |
| **Net earnings (loss)** | **$21** | $96 | $9 | $(18) | $77 |

| **Balance Sheet Summary March 31** (in millions) | **2006/07** | 2005/06 | 2004/05 | 2003/04 | 2002/03 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets | **$411** | $384 | $330 | $287 | $355 |
| Property, plant and equipment | **3,405** | 3,280 | 3,273 | 3,146 | 2,882 |
| Long-term assets | **247** | 235 | 195 | 176 | 20 |
| Other assets | **88** | 70 | 76 | 120 | 130 |
| **Total assets** | **$4,151** | $3,969 | $3,874 | $3,729 | $3,387 |
| | | | | | |
| **Liabilities & Shareholders' Equity** | | | | | |
| Current liabilities | **$659** | $762 | $956 | $817 | $682 |
| Long-term debt | **2,869** | 2,655 | 2,459 | 2,814 | 2,612 |
| Deferred liabilities | **392** | 332 | 323 | 253 | 270 |
| Shareholders' equity | **231** | 220 | 136 | (195) | (177) |
| **Total liabilities and shareholders' equity** | **$4,151** | $3,969 | $3,874 | $3,729 | $3,387 |

| **Cash Flow Summary** (in millions) | **2006/07** | 2005/06 | 2004/05 | 2003/04 | 2002/03 |
|---|---|---|---|---|---|
| Cash flow from operations | **$238** | $319 | $245 | $256 | $139 |
| Change in working capital | **13** | (11) | (51) | 29 | 14 |
| Nuclear trust fund payments | **(13)** | (40) | (13) | (156) | (20) |
| Deferred debt costs | **(10)** | - | - | - | - |
| Other | **(3)** | (5) | (1) | (8) | (7) |
| Operating activities | **225** | 263 | 180 | 121 | 126 |
| Financing activities | **71** | (37) | 158 | 321 | 131 |
| Investing activities | **(287)** | (209) | (341) | (497) | (212) |
| **Net cash inflow (outflow)** | **9** | 17 | (3) | (55) | 45 |
| Cash and short-term investments | | | | | |
| **Beginning of year** | **21** | 4 | 7 | 62 | 17 |
| **End of year** | **$30** | $21 | $ 4 | $7 | $62 |

| **Financial Charges** (in millions) | **2006/07** | 2005/06 | 2004/05 | 2003/04 | 2002/03 |
|---|---|---|---|---|---|
| Interest expense | **$198** | $197 | $223 | $240 | $256 |
| Income from sinking funds, trust funds and other | **(14)** | (10) | (21) | (31) | (27) |
| Debt portfolio management fee | **20** | 20 | 21 | 20 | 19 |
| Amortization of deferred debt costs | **-** | - | 3 | 7 | 6 |
| Foreign exchange (gain) or loss | **(2)** | 2 | (2) | (3) | (2) |
| Interest capitalized | **(22)** | (10) | (22) | (16) | (10) |
| **Net finance charges** | **$180** | $199 | $202 | $217 | $242 |

| **Financial Ratios** | **2006/07** | 2005/06 | 2004/05 | 2003/04 | 2002/03 |
|---|---|---|---|---|---|
| Operating margin[5] | **12.5%** | 20.8% | 13.9% | 13.9% | 11.6% |
| Cash flow from operations/capital expenditures[6] | **0.79** | 1.53 | 0.72 | 0.52 | 0.66 |
| Cash flow from operations/total debt | **0.07** | 0.10 | 0.08 | 0.08 | 0.05 |
| Debt/capital[7] | **93%** | 93% | 96% | 106% | 106% |
| Interest coverage ratio[8] | **1.03** | 1.74 | 0.97 | 0.88 | 0.68 |

| **Other Statistics** | **2006/07** | 2005/06 | 2004/05 | 2003/04 | 2002/03 |
|---|---|---|---|---|---|
| Rate increase | **6.9%** | 6.1%[9] | 2.5%[10] | 2.6% | 2.1% |
| CPI (New Brunswick) | **1.6%** | 2.4% | 1.5% | 3.4% | 3.4% |
| GDP increases (New Brunswick) | **2.3%** | 0.3% | 2.6% | 2.3% | 4.4% |
| Capital expenditures (millions)[11] | **$287** | $209 | $341 | $497 | $212 |
| Change in total debt (millions) | **$84** | $(26) | $(204) | $321 | $149 |
| Per cent breakdown of long-term debt | | | | | |
| Canadian dollar | **100%** | 100% | 100% | 71% | 68% |
| US dollar[12] | **0%** | 0% | 0% | 29% | 32% |
| Weighted average coupon interest rate | **6.0%** | 6.3% | 6.7% | 6.9% | 7.2% |
| Canadian dollar - March 31 | **$0.866** | $0.857 | $0.827 | $0.763 | $0.681 |

[5]Operating margin = (net income before finance charges - debt portfolio management fee)/total revenue
[6]Capital expenditures are net of proceeds on disposal and customer contributions
[7]Debt ratio = (debt)/(debt + equity), where debt = (long-term debt + short-term indebtedness)
[8]Interest coverage ratio = [net income before finance charges + (income from sinking funds, trust funds, and other investments - debt portfolio management fee)]/(interest expense)
[9]Reflects an overall 2.5 per cent rate increase in April 2004 (pre-restructuring) and an overall 3.0 per cent rate increase in March 2005 (post-restructuring)
[10]Rate increase at April 1, 2004 (does not include 3% rate increase at March 31, 2005)
[11]Capital expenditures are net of proceeds on disposal and customer contributions
[12]All U. S. denominated debt was transferred to New Brunswick Electric Finance Corporation on October 1, 2004

Boards of Directors

**Norman M. Betts, Chair (Interim)**
Dr. Betts is an associate professor, Faculty of Business Administration, University of New Brunswick. He serves on the boards of several publicly traded corporations including Starfield Resources Inc., Tanzanian Royalty Exploration, Tembec Inc., Rtica Inc., Adex Mining Inc. and Chairman Capital Inc. He also serves as co-chair of the Board of Trustees of the UNB Pension Plan for Academic Employees and is a director of the Nature Conservancy of Canada for the Atlantic region.

**Lise Bastarache**
Ms. Bastarache is a member of the Board of Directors of the Jean Coutu Group (PJC) Inc., Laurentian Bank and Chartwell REIT, all publicly traded companies. She is also a member of the Board of Governors of l'Université de Moncton and Chair of its finance committee.

**Normand Caissie**
Mr. Caissie is owner and CEO of Imperial Manufacturing Group, which manufactures metal, plastic and chemical products. He is responsible for the financial and strategic direction of nine independent companies, with facilities both in Canada and United States. Mr. Caissie is also involved in commercial real estate in strategic locations in Canada.

**David D. Hay, President & CEO**
Mr. Hay is president & CEO of the NB Power Group. He has been a managing director of Delgatie Inc., a senior VP and director with Merrill Lynch Canada Inc. and managing director within Merrill Lynch & Co., Inc.'s Investment Banking Division in London, England.

**Patrice Merrin Best**
Ms. Merrin Best, former President and CEO of Luscar Ltd., is a director of the Alberta Energy Research Institute. From 1999 to 2003, she was Executive Vice President and Chief Operating Officer of Sherritt International Corporation. She was a member of Natural Resources Canada's National Advisory Panel on Sustainable Energy Science and Technology in 2005-2006.

**Fraser Walsh**
Mr. Walsh is a former Corporate Advisor for George Weston Ltd. Other previous posts include President, Heritage Salmon Limited, Senior VP, Aquaculture, Connor Bros. Limited, as well as several senior management positions with Connors Bros. Limited. He is a member of the Board of the Atlantic Canada Opportunities Agency.

**Edward Barrett**
Mr. Barrett is the co-CEO of Barrett Corporation and Chair of Barrett Xplore. His previous posts include CEO of Barrett Marketing Group and CEO of Atlantic Rentals Ltd.

**Graham Brown**
Mr. Brown is president and CEO of Carillion Canada Inc. He is past COO of Ontario Power Generation and has also been a board director with National Power in the U.K., as COO and interim CEO. He has served in a managerial capacity with several petroleum companies and as a senior advisor to Prime Minister Margaret Thatcher.

**Bernard Cyr**
Mr. Cyr is the owner of Cyr Holdings Inc. (Château Moncton – Best Western – various restaurants and commercial properties). He is also franchisor of the Dooly's Group and a director of the National Bank of Canada and the Dr. Georges-L. Dumont Hospital Foundation.

**Shirley Mears**
Ms. Mears is the VP Finance of Edgewater Computer Systems, Inc. and a board director and chair of the audit committee of Starfield Resources Inc. Her previous posts include Senior VP and CFO with Hydro Ottawa Holding Inc., VP and Treasurer of Zarlink Semiconductor Inc. and VP, Treasurer and VP Human Resources Canada and Corporate Taxation of Mitel Corporation.

**Jean-Marc Violette**
Mr. Violette is a farmer and woodlot manager who has been active in the agriculture sector. He has served on the Farm Debt Review Board and the Farm Development Board.

**Notes**
Stephen Campbell was a board member until February 2007.
Susan Hicks and Leon Furlong were both members of the board until March 2007.
Derek Burney was the Chair of the Board until June 30, 2007.

## SENIOR MANAGEMENT

David D. Hay, President & CEO, NB Power Group

Darrell Bishop, VP, NB Power Generation Corporation

Andrew Cormier, VP, Shared Services, NB Power Holding Corporation and President, NB Coal

Michael Gorman, VP, Legal, NB Power Group

Sharon MacFarlane, VP, Finance, NB Power Group

Darren Murphy, VP (Acting), NB Power Distribution & Customer Service Corporation

Wayne Snowdon, VP, NB Power Transmission Corporation

Paul Thériault, VP, Human Resources, NB Power Holding Corporation

Gaëtan Thomas, VP, NB Power Nuclear Corporation

## GOVERNANCE



The companies in the NB Power Group share a common Chair, President & CEO and common directors. The Boards of Directors are responsible for directing the affairs of each of the Corporations consistent with the ***Business Corporations Act*** and the ***Electricity Act.***

The NB Power Group has a joint Audit Committee for the holding company and all of the operating companies. Each Corporation also has an Environment, Health & Safety Committee as well as a Human Resources, Governance and Nominating Committee. In addition to these committees, NB Power Nuclear Corporation has a Nuclear Oversight Committee.

### Audit Committee

The Audit Committee is mandated to assist the Boards in meeting their responsibilities with respect to financial reporting, internal control and risk management. The committee directly interacts with the internal and external auditors.

**Audit Committee Members:** Shirley Mears (Chair), Lise Bastarache, Edward Barrett, Norman Betts

### Environment, Health & Safety Committees

The Environment Health & Safety Committee exists to assist the board in establishing and maintaining appropriate board policies that guide the companies in respect to the outcomes to be achieved in meeting or exceeding their environmental and safety obligations.

**Environment, Health & Safety Committee Members:** Bernard Cyr (Chair), Patrice Merrin Best, Normand Caissie

### Human Resources, Governance and Nominating Committees

The Human Resources, Governance and Nominating Committees have three mandates

1. Human Resources

The committees in this role exist to assist the Boards in establishing and maintaining appropriate board policies to guide the companies regarding outcomes to be achieved in the management and handling of human resources.

2. Governance

The committees in this role exist to assist the Boards in establishing and maintaining an effective system of corporate governance.

3. Nominating

The committees in this role exist to assist the Boards in maintaining a full slate of directors with the appropriate personal characteristics, experience and skill sets that provide for a mix of competencies on the Boards and facilitates diversity of opinion and effective governance of the Corporations.

**Human Resources, Governance and Nominating Committee Members:** Lise Bastarache (Chair), Norman Betts

### Nuclear Oversight Committee

The Nuclear Oversight Committee is responsible for monitoring the nuclear performance of Nuclearco, particularly with respect to safety and operations issues, oversight of any refurbishment process and nuclear risk.

**Nuclear Oversight Committee Members:** Graham Brown (Chair), Norman Betts, Fraser Walsh, Jean-Marc Violette

**Capacity**
The maximum power that a generating unit, generating station or other electrical apparatus can supply, usually expressed in megawatts.

**Carbon Dioxide ($CO_2$)**
A colourless, odourless, non-poisonous gas that is a normal part of the ambient air. Carbon dioxide is also a product of fossil fuel combustion. It is a greenhouse gas that traps terrestrial (i.e., infrared) radiation and contributes to the potential for global warming.

**Combined Financial Statements**
The combined financial statements include accounts for Holdco and those of Genco, Nuclearco, Transco and Disco. The financial statements are referred to as combined and not consolidated. They are referred to as combined because the companies are under common management. They are not referred to as consolidated because the right and ability to obtain future economic benefits of these companies does not rest with Holdco.

**Energy**
Quantity of power produced by a generating station over a period of time, measured in megawatt-hours (MWh).



**Fly Ash**
Represents the finely divided particles of ash suspended in gases resulting from the combustion of fuel. Electrostatic precipitators are used to remove fly-ash from the gases prior to the release from a power plant's stack.

**Gigawatt hour (GWh)**
One million kilowatt-hours.

**Kilowatt-hour (kWh)**
The basic unit of electric energy equal to one kilowatt of power supplied to or taken from an electric circuit steadily for one hour.

**Megawatt (MW)**
Unit of electrical power to measure the generating capability of a generating station or the maximum demand of an electricity consumer.

**Megawatt-hour (MWh)**
One thousand kilowatt-hours.

**Net Capacity Factor**
The actual station generation of power to the grid in MW divided by the ideal maximum generation of power to the grid in MW possible.

**New Brunswick Electric Finance Corporation (Electric Finance)**
Crown Corporation that facilitates the conversion of NB Power's debt to appropriate levels in the subsidiary operating companies and assumes and reduces the remaining portion of NB Power's debt.

**New Brunswick Energy and Utilities Board (EUB)**
An administrative tribunal charged with the economic regulation of public utilities in the province. The EUB regulates Disco in the areas of

- charges, rates and tolls for service
- requests for proposals for the supply of electricity
- any fees to be paid by transmission or wholesale customers reducing their standard service requirement or exiting standard service (exit fees)

The EUB regulates Transco in the area of the Open Access Transmission Tariff.

**New Brunswick System Operator (System Operator)**
An independent, not-for-profit Crown Corporation that directs the operation of the electricity market, maintains the long-term adequacy and reliability of the electricity system and administers the Open Access Transmission Tariff.

**Nitrogen Oxides ($NO_x$)**
Gases consisting of one atom of nitrogen and varying numbers of oxygen atoms. Nitrogen oxides are produced, for example, by the combustion of fossil fuels in vehicles and electric power plants. In the atmosphere, nitrogen oxides can contribute to formation of photochemical ozone (smog) and impair visibility.

**Open Access Transmission Tariff**
Establishes non-discriminatory access to the transmission system for generators and customers inside and outside the province and generates revenues for Transco to operate and maintain the transmission system, based on the cost of providing services.

**Orimulsion®**
An emulsion containing about 70 per cent bitumen (thick oil) and 30 per cent water. The bitumen is extracted from the Orinoco belt in Venezuela in the northern basin of the Orinoco River.

**Power Purchase Agreements**
Supply contracts between two parties for the supply of electricity.

**Renewable Portfolio Standard**
Requirement that a certain amount of electricity sold in a competitive market includes some amount produced from renewable sources.

**Sulphur Dioxide ($SO_2$)**
Belongs to a family of sulphur oxide gases ($SO_x$) and is a colourless gas. It is formed from the sulphur contained in raw materials such as coal, oil and metal-containing ores used during combustion and refining processes. Flue gas desulphurization units are used to remove $SO_2$ from the gases prior to the release from a power plant's stack.

**Standard Service Supplier**
The provider responsible for supplying adequate capacity and energy to meet customer demand for those customers not served by a competitive supplier. Disco is designated as the standard service supplier for New Brunswick.

**System Average Interruption Duration Index (SAIDI)**
The average total duration of interruptions during the year.

**System Average Interruption Frequency Index (SAIFI)**
The average number of times each customer on the distribution system is without power annually.

To obtain additional or French copies of this report, please contact

NB Power Holding Corporation
Corporate Communications
P.O. Box 2010
Fredericton, New Brunswick
Canada E3B 5G4
Telephone: (506) 458-4448
Fax: (506) 458-4249

For more information on the NB Power Group, go to www.nbpower.com